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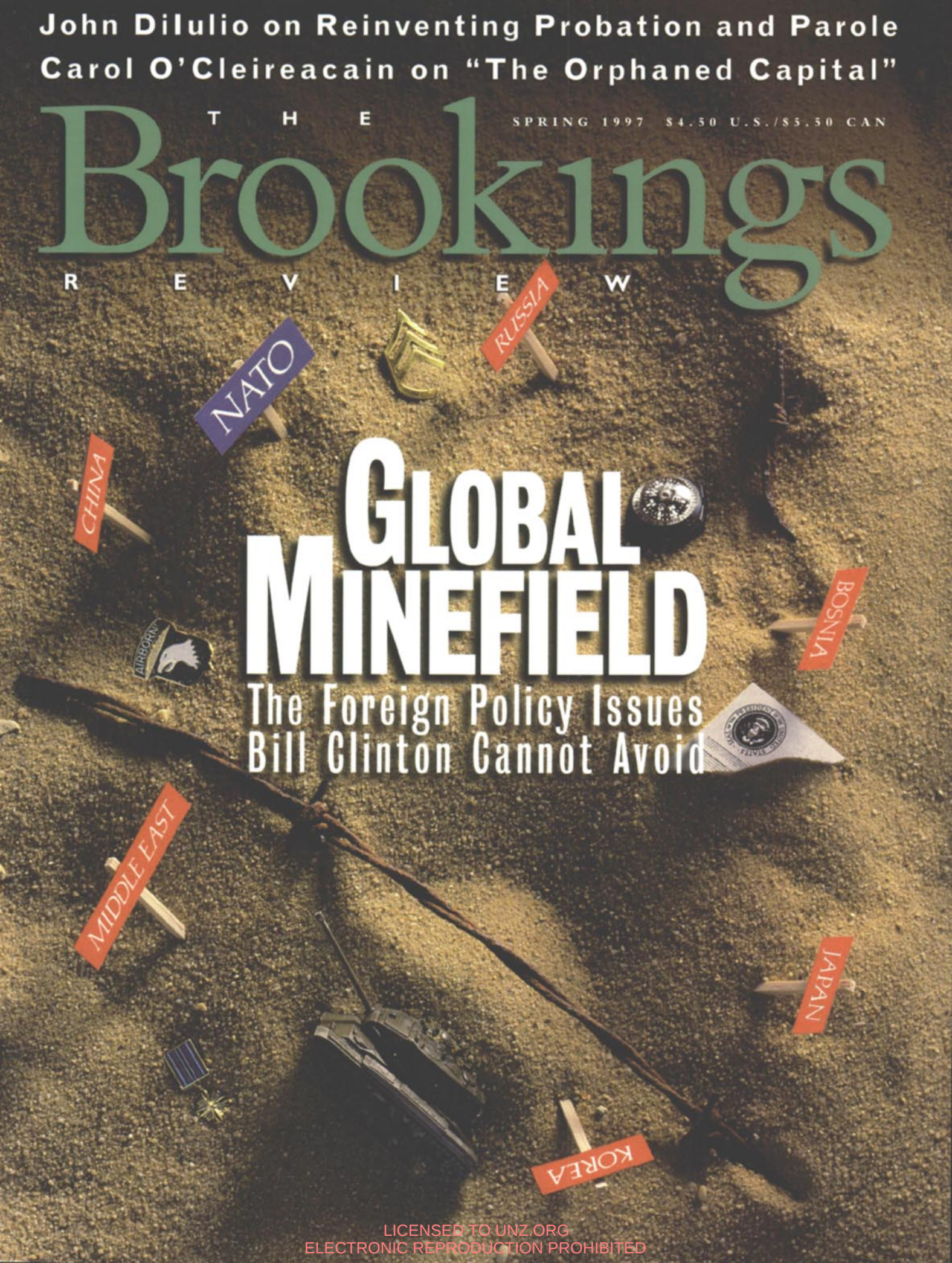
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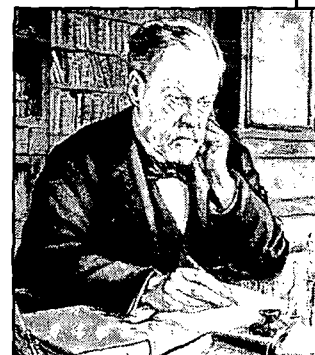
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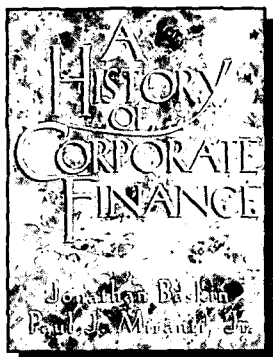
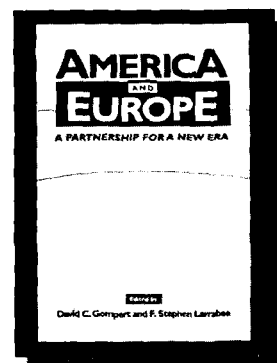
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LETTERS

Hope for the Cities

❖ IF ANYTHING, MYRON ORFIELD ("Metropolitics," winter issue) understates the breadth of coalitions that can form around issues of metropolitan development and redevelopment.

The prospects for coalition building became obvious here in Portland, Oregon, when our directly elected metropolitan government began work on an enforceable 50-year plan involving transportation investment, housing, and protection of natural resources.

The planning effort spurred the formation of a coalition of nonprofit housing providers, environmentalists, advocates for minorities, transportation reformers, churches, and others—all with overlapping interests in promoting a more compact urban form, reducing reliance on the automobile, revitalizing distressed areas, ensuring a mix of types of housing in all communities, and protecting natural areas.

The regional planning process has been complex and contentious, and the outcome is still uncertain. But the level of public engagement and agreement among local governments has exceeded all expectations.

Robert Liberty, Coalition for a Livable Future

Demolishing Urban Myths

❖ THROUGH HIS DEMOGRAPHIC mapping and his legislative coalition building, Myron Orfield ("Metropolitics," winter issue) explodes the myth that suburbs are monolithic. Older, inner-ring suburbs in the Twin Cities and in metropolitan regions all over the country are taking on the profile of central cities. In this unhappy fact lay the political seeds for a revival in the Twin Cities of the political will necessary to redress the growing imbalance of opportunity in our country. Whether the proposed solutions are national or local, place-based or people-based, political will is the necessary precedent to action. Orfield's work gives us some hope.

George Latimer, Macalester College

Cities and Welfare Reform

❖ MARGARET WEIR ("IS ANYBODY Listening?" winter issue) strikes some important notes. She is right to point out that the burden of welfare reform will fall most heavily on the older cities. But to some extent so do the benefits. Does she imagine that New York could continue to be economically viable without welfare reform? In March of 1995 more

than one-seventh of its population, 1,160,000 people, were entitled to AFDC or Home Relief. Since then, the rolls have dropped roughly 18 percent to about 950,000.

None of this could have happened if the threat of national welfare reform hadn't allowed Mayor Giuliani a flexibility denied to his predecessors. So far most of the decline has come by tightening eligibility requirements. As yet there has been very little of the displacement—the shift of AFDC recipients to other social services like homeless shelters—that Weir rightly worries about. That said, I suspect that the further the welfare population in New York is reduced, the greater the danger that dysfunctional people will be moved off welfare and into homeless shelters.

Fred Siegel, author of The Future Once Happened Here (Free Press, forthcoming)

Punishing the Working Poor

❖ MARGARET WEIR ("IS ANYBODY Listening?" winter issue) rightly draws attention to burden shifting from Washington to cities embodied in welfare reform. She persuasively argues that welfare reform will create a new class of "invisible poor," people who disappear in government statistics but populate our streets. If anything, she understates the punitive effect welfare reform will have on cities and poor communities.

How will overburdened inner-city schools function with increasing numbers of troubled children from disoriented families denied welfare assistance? The children of the working poor attend the same schools as the children of the nonworking "undeserving" poor—whose able-bodied parents government will no longer support. Any teacher knows that even a few children with physical (hunger) and behavioral problems can disrupt a classroom and that all students suffer as a result. The social disorganization that Weir predicts will also likely increase crime and vandalism, especially in poor communities, where, again, the working poor and the undeserving poor live together. Assuming that we do not physically isolate the undeserving poor—forced labor camps for parents who do not work and orphanages for their children?—welfare reform will inevitably be a form of collective punishment against poor communities and the institutions that serve them. This is not only functionally unsound, it is a moral retreat of major proportion. Is anybody speaking up?

J. Phillip Thompson, Barnard College

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Campaign Finance Reform: Dead on Arrival?

Campaign fundraising is well on its way to becoming the blockbuster issue of the 105th Congress. Each day brings new revelations about the aggressive and shameless tactics used by the Clinton administration to press supporters for large, soft-money contributions to finance a preemptive television advertising campaign in 1995. The Democratic National Committee twice announced that it had returned a slew of contributions that were either illegal or could not be confirmed as proper while pressure intensified for the appointment of yet another independent counsel.

Legitimate concerns about whether laws were broken in the 1996 campaign may in the end pale in significance compared with the noxious practices that were permitted by law. Both parties engaged in an orgy of soft-money raising that made a mockery of federal limits on individual contributions and prohibitions on gifts from corporations and labor

unions. In addition, parties and outside groups exploited the loophole of "issue advocacy" to run thousands of negative political spots financed by party soft money, union dues, and corporate treasuries. Finally, parties took advantage of the Supreme Court's *Colorado* decision affirming their right to make unlimited independent expenditures by setting up shell "autonomous" operations that unleashed massive negative attacks on their adversaries.

One might have thought that the stench of scandal and the widely acknowledged collapse of the regulatory regime for campaign finance would improve prospects for reform, but the reality is otherwise: if not dead on arrival, campaign finance reform is surely on life support. The Republican leadership in Congress appears singularly interested in focusing public attention on the misbegotten behavior of the Clinton campaign, not in restructuring the way campaigns are financed. Congressional Democrats seem to want an attractive political position to defend in the 1998

midterm election, not a change in campaign finance law. And the reform community is itself severely fragmented, showing no sign of seeking a consensus that might facilitate an agreement on Capitol Hill.

Some reformers seem bent on pursuing a

constitutional amendment that would give Congress the power to limit spending in elections. Other have mounted a jurisprudential challenge to *Buckley*, hoping to persuade the Supreme Court to reconsider its entire constitutional reasoning on campaign finance law. Yet others have launched a national campaign to spread the Maine Clean Money Option, a system of voluntary full public financing, to other states and eventually to Washington. Whatever their particular merits, none of these initiatives offers any promise of bearing fruit during the next several years. The one reform vehicle that is designed for consideration by the 105th Congress, the McCain-Feingold bill championed by Common Cause but subjected to a withering critique by other reform stalwarts, faces seemingly insurmountable odds in the face of the almost united opposition of Senate Republicans.

If reform is to happen in the 105th Congress, two developments are prerequisite: a devastating set of public hearings that generate widespread bipartisan embarrassment and an agreement among reform groups that sensible incremental steps taken now can lay the base for more transforming change in the future. To advance the latter, four colleagues (Norman Ornstein, Paul Taylor, Michael Malbin, and Anthony Corrado) and I have proposed a package of reforms that deals with some of the most egregious flaws in the system in 1996 and that has some reasonable prospect of attracting bipartisan support. Instead of voluntary spending limits, new restrictions on PACs, and direct public financing, we propose to ban soft money by eliminating nonfederal accounts at national party committees; limit the blatant political abuse of "issue advocacy" by defining as a campaign ad any paid communication with the general public that uses a federal candidate's name or likeness within 90 days of a primary or general election; provide free television and radio time to candidates and parties by creating a national political time bank with deposits from every television and radio station in the country; encourage small contributions through a 100 percent tax credit; and strengthen disclosure and enforcement through mandatory electronic filing and restructuring of the Federal Elections Commission.

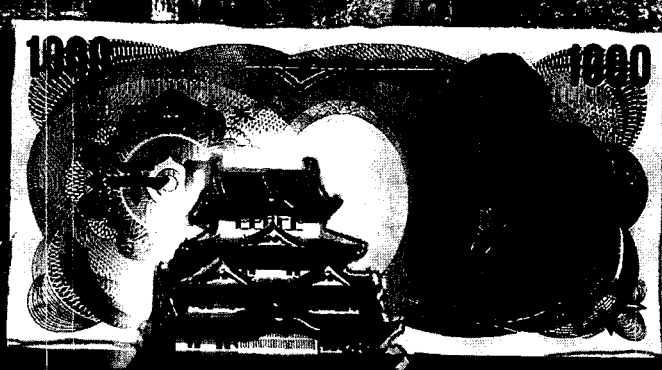
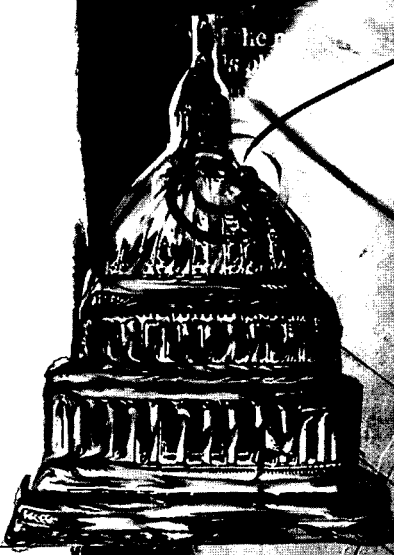
These are achievable objectives for the 105th Congress, if we can only embarrass the politicians and unify the reformers.



Thomas E. Mann, W. Averell Harriman Senior Fellow in American Governance, is director of the Brookings Governmental Studies program.



We the People



STARTING OVER

Foreign Policy Challenges for the Second Clinton Administration

The second Clinton administration begins with an uneven inheritance in the area of foreign policy. On the positive side, the president and those around him have four years of experience working with the issues, one another, and foreign leaders. There is as well the momentum that stems from significant accomplishments, most notably in promoting liberal trade; stabilizing or at least defusing situations in Haiti, Bosnia, the Middle East, and North Korea; and managing a severe financial problem in Mexico, one that could have led to a global economic crisis.

The Clinton administration also has the continued luxury of conducting foreign policy in the absence of a major adversary. This is not to say there are no hostile forces—there are, including several so-called rogue states and terrorist and criminal organizations, as well as other governments that can be expected to resist the United States on particular issues. But there is no successor to the Soviet Union, no global competitor of the United States.

At the same time, Mr. Clinton begins his second term with handicaps. It is some seven years after the end of the Cold War, and still there is no intellectual or political consensus on how to view the world or structure America's relationship with it. That we call it the "post-Cold War world" testifies to our confusion, as does the absence of any doctrine or idea to replace containment and guide the country's foreign policy.

Nor did any clear policy consensus emerge from the president's first term. There was not so much a Clinton foreign policy as foreign policies. At various times, Mr. Clinton and his advisers emphasized promoting democracy and human rights, boosting U.S. exports, alleviating humanitarian hardship, or maintaining the balance of power in critical regions such as the Persian Gulf or Northeast Asia. Similarly, the first Clinton administration began by espousing an ambitious concept of what multilat-

Richard N. Haass is director of the Brookings Foreign Policy Studies program. He is the author of The Reluctant Sheriff: The United States after the Cold War (Council on Foreign Relations, forthcoming).

ILLUSTRATIONS BY ANDREW FAULKNER

eralism could accomplish and ended with a number of actions that were nothing so much as unilateralism in practice.

The 1996 election did little to clarify matters. The presidential campaign as well as the congressional competitions largely ignored events beyond the country's borders. The relative neglect of international affairs means that the winning candidates are not locked into positions that helped them win over voters but would pose an obstacle to intelligent governing. Yet it also means that the Clinton administration cannot lay claim to any mandate in this area. Nor did the campaign prepare the American people for any sacrifice. To the contrary, it only reinforced the impression that the world is a relatively safe place and that international concerns can continue to take a back seat to domestic matters.

This mixed inheritance makes it inevitable that the second Clinton administration will face two sets of challenges. The first will be overseas and will involve relations with the other leading powers of the day and a series of both major and minor flashpoints or crises. The second set of foreign policy challenges will come here at home, where support for international involvement falls short of what is required. How President Clinton deals with both sets of challenges will determine his legacy in the foreign policy realm and, quite possibly, overall.

BEYOND AMERICA'S BORDERS

The most significant foreign policy challenge facing the incoming administration involves relations between the United States and the other great powers of the era: China, Russia, Japan, and Germany and Western Europe. These countries possess the lion's share of the world's economic and military might. Their ability to agree on the norms or standards that should shape international life will give this period of history its character. Similarly, their cooperation is essential if we are to see the emergence and strengthening of the institutions that will help structure or regulate post-Cold War international relations.

Achieving such consensus will be far from easy. Indeed, during Mr. Clinton's first term, U.S. relations with each of these powers deteriorated. To point this out is not to blame the president and his foreign policy team, although it is fair to say that American inconsistency, unilateralism, and above all a lack of regular high-level attention by policymakers did contribute to this development. Improved relations will require a more disciplined agenda on our part and then sustained effort to address U.S. priorities with the leaders of these states.

We will need to continue talking with Russia about its relationship with an enlarged NATO—Moscow deserves a voice, not a veto—and the United States should be willing to adjust arms control arrangements inherited from the Cold War to meet changed circumstances and legitimate Russian concerns. With Germany and Europe there needs to be a greater effort to

find common approaches to out-of-area problems, along with less recourse to unilateralism on our part when we disagree, as is the case in policy toward both Iran and Cuba.

No relationship may prove as fateful as that between the United States and China. Indeed, managing China's emergence as a great power could well prove to be the defining foreign policy effort of this era. We would be wise to place our priorities on China's external behavior, the area where the stakes are the largest, the impact the most immediate, and our leverage greatest, and not allow U.S. policy to be determined by hunger for China's market or frustration over human rights. With Japan as well the United States needs a broader relationship, one in which trade concerns do not overwhelm all else but in which we can consult profitably about events in Korea and involving China.

The president will have to spend a good deal of political capital working with Congress to provide the funds—nearly \$300 billion—needed for the United States to continue its leadership role.

The second principal overseas challenge will involve the Persian Gulf and Northeast Asia. These are the two theaters where the United States has vital national interests, where those interests face clear threats, and where local states are dependent on Washington for help. It may be worth noting that Korea was the site of the first major conflict of the Cold War, and the Gulf the first major conflict of the post-Cold War world. We will require clear communication—both of what we expect and of what we are prepared to do if those expectations are either met or not—as well as the capabilities to back up our words if we are to avoid crises with an increasingly weak North Korea in one region and an increasingly robust Iran and Iraq in another.

The third challenge is not a single one so much as a category. It includes many problems that dominated foreign policymaking during the first term, most notably Bosnia, Haiti, the Middle East, and Mexico. In addition, terrorism, uncertainty over the fate of Hong Kong, growing tensions between Greece and Turkey—these and other problems are sure to intrude. The challenge will be to address them without losing sight of more important if not always more urgent concerns, something best accomplished by early and regular involvement with the full range of foreign policy tools. The worst approach is almost always to wait until a crisis erupts, at which point we are often left with few choices other than those provided by the military.

FOREIGN POLICY BEGINS AT HOME

The world of the next four years is unlikely to be as stable as that of the previous four, which were remarkably calm by any measure. As a result, foreign policy in the second term is likely to be more difficult and demanding. As much as the president

and many of those around him may want to focus on domestic matters, they are unlikely to be able to do so.

The president has already chosen his principal foreign policy lieutenants. Now several relationships must be sorted out, including the degree of presidential involvement, the power of cabinet secretaries relative to one another and to the national security adviser, and the role of the National Economic Council and the weighting of international economic concerns. No one system is right for all presidents, but history strongly suggests the need for regular presidential involvement, a strong national security adviser who can broker differences between the cabinet heads and provide independent counsel as required, and a strong NEC that ensures that trade considerations are factored in but not allowed to dominate national security decisionmaking.

The process of making foreign policy will be complicated by the continuation of divided government. There is no solution to this challenge, just as there is no substitute for constant and regular consultations between the executive and legislative branches.

The president will have to spend a good deal of political capital working with Congress to provide the funds—nearly \$300 billion—needed for the United States to continue its leadership role. On spending for defense and intelligence,



there seems to be a floor of about \$265 billion. Indeed, here the biggest question is less how much is spent overall than what the money is spent on in particular. Balancing among requirements stemming from the need to hedge against great power conflict, planning for the two dominant regional contingencies, and undertaking the many lesser actual and potential deployments is the overarching challenge. What this suggests is the need for capabilities that are not only large but varied and flexible, able to contend with a wide range of challenges in a variety of locales.

No such floor exists under funding for foreign aid and diplomacy. Although economies from consolidating oversight agencies are still possible, and despite the fact that some programs may not yet have been sufficiently revised to meet the changing demands of the post-Cold War world, it is nevertheless true that years of budget cuts have left us resource poor. The result is a loss

of leverage and tools that could help us address a host of problems before they reach a point where there is little we can usefully do or where military intervention is the only option.

But as important as dollars are, the most important resource affecting the course of American foreign and defense policy may be time—in particular, the time of the president and his most senior aides. It is often too late once the problem or crisis materializes. We need regular, active involvement as a matter of course—and regular high-level consultations with the other major powers as a matter of schedule.

In the end, all the dollars and all the tools in the world count for little if the American people and their representatives are not prepared to support their use. Only the president has the power to persuade the public that casualties are worth suffering on behalf of certain interests or causes. We need less emphasis on exit strategies and more on the benefits of acting and staying the course. This means that the bully pulpit of the presidency must be used consistently to make the case for foreign policy.

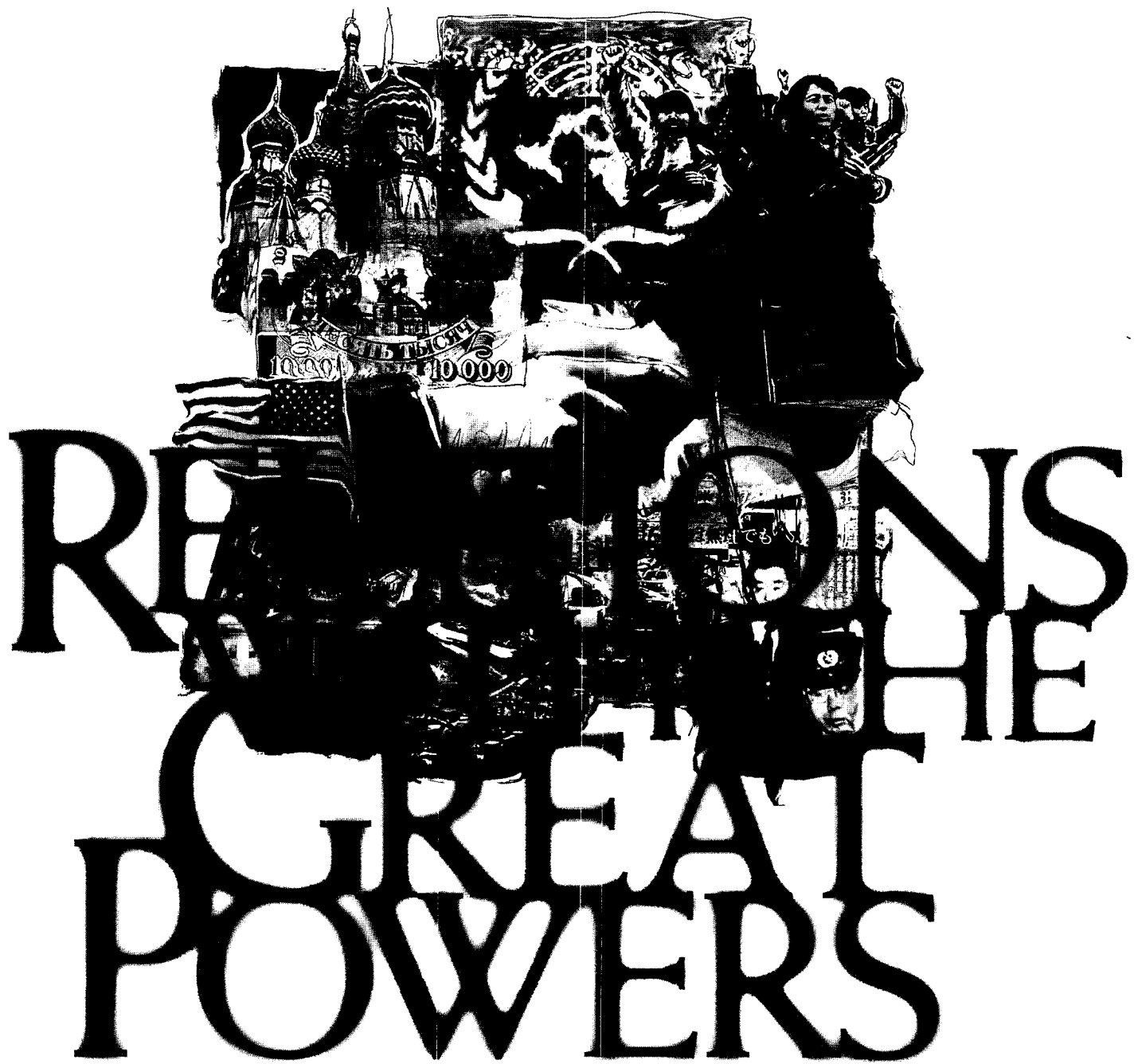
FROM CONTAINMENT TO REGULATION

The lack of an intellectual construct for American foreign policy is not cost-free. Doctrines provide useful guidance for sizing and shaping defense spending, for determining whether and how to intervene with military force or other tools, for deciding where promoting democracy can dominate policy and where it must take a back seat. Without such a structure, policymakers become reactive, all too easily swayed by the latest televised image.

What should this construct be? I would argue for a doctrine of “regulation” to shape the behavior and, in some cases, capabilities of governments and other actors so that they are less likely or able to act aggressively beyond their borders or toward their own citizens and more likely to conduct trade and other economic relations according to agreed norms and procedures.

The focus on inter-state concerns should be dominant rather than exclusive. Considerations of “justice”—democracy, human rights, human welfare—would, though, ordinarily be of a lower priority. So, too, would promoting exports. The reasoning is simple. Order is the more basic concern. One can have order without justice but not the other way around. Similarly, one cannot have trade without stability.

Some of this can be best achieved by creating or expanding multilateral institutions, be they regional (such as NAFTA) or global (such as the World Trade Organization). In other instances, less formal coalitions of the willing and able, organized by the United States, will be the best available mechanism for accomplishing U.S. objectives. In all instances, what is certain is that our ability to realize our goals will be a direct consequence of our willingness and ability to lead, something that in turn will reflect our willingness to devote resources—our wealth, lives, and time—to the tasks before us. ■



REACTIONS TO THE GREAT POWERS

RUSSIA

JAPAN

CHINA

Expansion of NATO—or, as its advocates now prefer to term it, NATO enlargement—is the most important international issue on the agenda today. Yet it has received far too little real consideration. Support in Washington and most other NATO capitals seems widespread, but it is not deep. The issue did not figure in the fall U.S. election campaign, mainly because the idea was endorsed by both presidential candidates, in speeches to audiences in states with a political constituency of Americans of Polish, Czech, and Hungarian descent. In July, NATO will presumably announce its readiness to open negotiations with three Central European countries eager to enter NATO and considered most appropriate—Poland, the Czech Republic, and Hungary. A promise will be made that others, as yet unchosen, will follow.

NATO AND RUSSIA

RAYMOND L. GARTHOFF RUSSIAN REACTION

NATO was a great success story of the Cold War, so why not build on that success? For a few years, from 1990 until 1994, it was generally agreed that NATO must transform itself in the post-Cold War world, but that transforming a military alliance inherited from an era of confrontation of contending blocs was best done by changing its role, rather than by taking in new members. When the Paris Charter of Europe in 1990 marked the end of the Cold War, NATO had a border running through Central Europe. That border, however, was an unavoidable legacy of the Cold War. To create new lines of division of Europe by enlarging NATO to the East would not be explicable as an inheritance. New security arrangements could best be handled, it was thought, through individually differentiated agreements with non-NATO countries, through a Partnership for Peace (PFP) with each country that so desired, without creating a new and enlarged bloc. The PFP was launched at the start of 1994. But before it could prove itself (as indeed it has), the United States, which had sponsored it, suddenly endorsed expansion of NATO membership. Why?

The sudden shift had three principal sources. First, the political leaders of several former Communist Central and Eastern European states, above all in Prague, Warsaw, and Budapest, were impatient to enter (Western) Europe, and the road to

membership in the European Union looked steep and long. NATO membership seemed the best path. The PFP was no substitute. Moreover, they harbored fears of future Russian pressures and wanted the security blanket assurances of Article V. Second, some (not all) German leaders decided that German economic expansion into East-Central Europe would be most palatable in the framework of a multilateral redefinition of relationships. Again NATO was more feasible than the EU, and the PFP was irrelevant. Finally and most decisive, President Clinton was persuaded by those in his administration, initially a minority, who favored an enlargement of NATO as the best vehicle to revivify and transform the alliance—and thereby to preserve and enhance the one institution that gave the American voice in Europe its greatest resonance. That it appealed to a vocal domestic political constituency was an added advantage. Even more important, it could represent an American initiative and a success story in the alliance and at home.

Ironically, extending NATO's protective umbrella to Central Europe against a possible resurgent Russian threat was regarded as an easy step precisely because it was understood that there was no real likelihood of Russian military aggression against any of its western neighbors, so that extending the U.S. and NATO commitment carried no real risk, while it would reassure the East-Central Europeans and gain their gratitude and support.

It was, of course, recognized that the Russians, who were just overcoming doubts and joining the Partnership for Peace, would not like it. But the advocates of NATO expansion believed that because the Russians could not really do anything about it, they would simply have to reconcile themselves to it. Moreover, we could facilitate that reluctant acceptance by rhetorical reassurances and various steps to assuage hurt Russian feelings by elaborating cooperative relations between NATO and Russia.

Opposition to expansion of NATO is, regrettably, the one thing on which virtually all Russian political figures can agree. As Russian leaders began to voice objections, it became necessary to mount counter-arguments. One argument was that enlargement of NATO would enhance stability in East-Central Europe and would strengthen political democratization and economic marketization, all of which would be in the interests not only of the countries involved, but of the West and Russia too. Of course, if the main aim was to enhance stability by reinforcing nascent democratization and economic reform, highest priority should presumably have been given to bringing Russia and Ukraine into NATO. The second argument was

Raymond L. Garthoff is the author of The Great Transition: American-Soviet Relations and the End of the Cold War (Brookings, 1994).

that while Russia today was no threat, the Russia of tomorrow was uncertain, and enlargement of NATO would reassure its new members against possible future dangers. The Russian parliamentary elections of December 1993, in which the erratic nationalist Vladimir Zhirinovskiy and the Communists did better than expected, gave a boost to that rationale for NATO enlargement in Western as well as Eastern Europe.

The argument that NATO enlargement would be a hedge against aggressive inclinations of a resurgent Russia would appeal to those countries brought into NATO, but what of the many East-Central European, Balkan, and Baltic states *not* brought into NATO (at least not in the coming years)? They were being promised *less* security by drawing a new dividing line, because rather than a general NATO interest in security for all the countries of the region, a few were to be selected for membership and enhanced security while the others were being left aside as apparently not deserving that assurance.

Some in the West, especially a few prominent geopoliticians of the Cold War school, including Henry Kissinger, have meanwhile gone beyond Clinton administration spokesmen in advocating on general "realist" geopolitical grounds rapid and substantial expansion of NATO not to cultivate democracy in Eastern Europe or to hedge against a possible failure of democracy in Russia, but to take advantage of temporary Russian weakness and establish a counter-Russian military alliance now while we are most easily able to do so.

Such arguments, of course, complete the circle: that is exactly what many in Russia fear, that the move is simply an anti-Russian action by NATO and above all the United States. Many in Russia harbor anti-Western and especially anti-NATO biases from long-ingrained Cold War thinking in any case, but such suspicions were being validated by the actions of the West. This line of advocacy by prominent American cold warriors also undercut Western counter-arguments that NATO expansion was in Russian interests and that the Russians had nothing to fear from an enlarged NATO so long as Russia itself had no expansionist designs.

NATO enlargement, as the path to security for Eastern Europe and therefore for Europe as a whole, is not directed against Russia. Yet, to many Russians, the renewal of the Western Cold War political-military alliance by absorbing former members of the defunct Warsaw Pact when there is no threat *from* Russia can only be seen as creating a new threat *to* Russia. Moreover, many believe, and others have fanned opposition by claiming, that NATO moving East would represent a direct military threat to Russia. Why else would NATO, now with enormous conventional as well as nuclear superiority, feel it necessary to advance to the very borders of Russia itself?

More important than the fact that NATO expansion stirs unrealistic Russian fears is that it would in fact impinge on legitimate Russian security interests. Expansion of NATO, excluding Russia, to provide security for Western and Eastern Europe would marginalize, if not exclude, Russia from meaningful participation in European security arrangements. If Rus-

sia is not offered membership in what is being heralded as the central security body of Europe, it is not being given full and equal status as a European power in the new world order. As important as it is to avoid feeding Russian misperceptions of a Western military threat, it is even more important to avoid feeding valid Russian perceptions that their legitimate security interests are not being given appropriate weight. Because this is not the Western purpose, there is all the more reason to seek some other means to meet Western (and Central European) security aims without persisting on a course that can only create a long-term problem with Russia—and, in one or another way, for other Soviet-successor states.

NATO enlargement as a hedge against negative policy changes in Russia risks contributing precisely to such changes. Hedging should at the least not risk making political dangers more real; it can and should therefore be a contingent response in the event that such changes occur, rather than a preemptive initiative that may help bring them about.

The danger is not that Russia will angrily react to NATO expansion by precipitous military counter-actions against the Baltic states, pressure on Ukraine, or foreign adventures elsewhere. There might well be some decreased security for all as Russia would have to rely more on a strategy of flexible response with planned early recourse to nuclear weapons as its only counter to a potential Western military threat. But the main adverse consequence would be political: diminished Russian confidence in the West and a considerable weakening of the influence of those Russians who are most devoted to policies of cooperation with the West and international cooperative security. The first casualty would probably be the unratified START II Treaty and prospects for further strategic arms control, and perhaps also the existing regime of conventional arms control in Europe. At worst, Russia would become not a rampaging bear but an isolated and besieged nuclear fortress, with little incentive to contribute to security of a perceived hostile world, for example by responsible policies of restraint in arms sales and nuclear nonproliferation. To have driven Russia from support of Desert Storm to support for the Saddam Husseins of the future by denying it a responsible role in the security architecture of the new world order would be a heavy burden to assume for expanding NATO.

In 1949, Lord Ismay remarked that the contribution of NATO to security in Europe lay in "keeping America in, the Russians out, and the Germans down." A lot has changed in the intervening half century. Today NATO can continue to serve a useful role in European security only if it does *not* keep the Russians out. This is by no means a matter of "giving Russia a veto" or pandering to unreasonable Russian fears or objections. We should have learned that no one gains security by creating insecurity for others. If legitimate Russian security interests are not met, neither will the long-run interests of Eastern Europe, Western Europe, the United States, and the world.

I have touched on only one of many reasons that expanding NATO membership is a bad idea. NATO remains a military alliance, and working toward its expansion focuses too much at-

tention on military aspects of security. Prospective new members of NATO and future candidates for membership, for example, are being told to modernize and improve their military infrastructure and armed forces to be compatible with those of NATO—a costly diversion from political and economic reform. Meanwhile, some present members of NATO, whose votes are needed for unanimous agreement to bring in new members, are using the leverage of their votes to press for extraneous ambitions (Turkish pressure for membership in the EU is but one such instance that has become public). Nor has much attention been paid to the fact that each new member of NATO could wield a veto on future candidacies of others.

TOO LATE TO CHANGE COURSE?

Once the undesirability of the attempt to enlarge NATO becomes clear, we are left with a serious problem: are the costs of abandoning NATO expansion already too great to change course? Would the political costs of belatedly aborting the planned July announcement of inviting three countries to join NATO outweigh the costs of proceeding? Perhaps the process could be slowed or curtailed, for example limited to bringing in only three or four new members. Alternatively, it could be made clear that future membership would be open to all qualified aspirants, not excluding in due time Russia. That course would not appeal to many (in Russia as well as in the West), and if it eventually came to pass might leave NATO little different from other unwieldy large organizations such as the Organization for Security and Cooperation in Europe and the North Atlantic Cooperation Council. We could lose much of NATO's present value as a functioning security organization. Indeed, many strong American supporters of NATO oppose any enlargement out of concern over the diluting effect of

bringing in even a few new members. But proceeding on the present track may be even more destabilizing.

The present course now includes an attempt to negotiate a NATO-Russian "charter" or other agreement, offering a yet undefined security relationship short of Russian membership in NATO. The Russians are asking for a formal ratified treaty and object that unilateral NATO assurances of no present plans to deploy forces or nuclear weapons in the territories of new members in the East may change. Even if there are no grounds for present alarm over the intentions of either NATO or Russia, just as some in the West fear a changed future Russia, so some in Russia fear a change in Western intentions. Although the prospects of undesirable change in Russia seem greater, on the traditional basis of gauging potential threat by "capabilities, not intentions," the Russian concerns are justifiable. To be sure, if NATO enlargement does proceed, it is essential that as strong a NATO-Russian tie as possible be provided, not only because the Russians want it but because we should too in our own interests. Agreement on reduced national levels of conventional forces in Central-Eastern Europe would also help.

Perhaps the answer is *really* to transform NATO, beginning by extending to any new members of the alliance the security assurances of Article V and membership in the North Atlantic Council, but *without* expanding the NATO military organization. The military organization could remain with current members within its inherited 1990 borders, with broader military cooperation based on variegated cooperative arrangements under the Partnership for Peace, while the political organization finds a new role. If this is not the answer, at least it helps identify the problem. Above all, we should keep in mind that the objective is broader and deeper security, not expanding an organization for some at the cost of diminishing security for all. ■

JAPAN

MIKE MOCHIZUKI



The post-World War II security relationship between Japan and the United States was based on a bargain inspired by the Soviet threat: the United States agreed to defend Japan in exchange for access to military bases in Japan. Since the Cold War's end, Washington and Tokyo have been inching toward updating that paternalistic relationship not only to make it more reciprocal but also to expand its focus to include regional peace and stability.

Domestic pressures in both Japan and the United States argue for redefining the alliance. As is evident from the public reaction in Okinawa after the rape of the schoolgirl by American servicemen in September 1995, many Okinawans resent their burden in maintaining the bilateral security arrangements. And most of their countrymen strongly oppose transferring U.S.

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forces elsewhere in Japan. The burgeoning Japanese budget deficit also suggests that there are limits to Tokyo's host-nation support for U.S. forces in Japan. The American public, for its part, may not be content for Japan to continue free-riding on U.S. security policy.

The challenge for the Clinton administration is how to strike a new strategic bargain that would allow Japan to shed its post-war pacifist role and assume more of the diplomatic and military risks for maintaining peace in the Asia-Pacific region. In turn, the United States would streamline its military presence in Japan and move toward a more equal partnership.

STEP BY STEP

In April of 1996 President Clinton and Prime Minister Ryutaro Hashimoto held a summit meeting in Tokyo that appeared to herald change. Clinton defused the Okinawa crisis by agreeing to return the Futenma Marine Air Station to Okinawa in five to seven years and reduce the acreage of American military facilities in Okinawa. Japan agreed to provide logistical support

neutrality and accept both the U.S.-Japan security treaty and the constitutionality of the Self-Defense Forces. For the first time since the end of the U.S. occupation of Japan, Japanese defense officials now have an opportunity to formulate policy on the basis of a broad bipartisan consensus. But ensuring the acquiescence of the Social Democrats necessitates a go-slow approach. Policymakers fear that revising or even reinterpreting the constitution and the U.S.-Japan security treaty would cause a rancorous public debate that could jeopardize the steady progress that has been made over the past two decades in broadening Japanese domestic support for the alliance.

In the United States, a delicate balancing act led policymakers to embrace incrementalism. On the one hand, the logic of deterrence and crisis response calls for the normalization of Japan as a great power with the will and capability to act outside the Japanese defense perimeter in concert with the United States. On the other, the logic of restraining Japanese autonomy and of reassuring Japan's wary Asian neighbors suggests the imprudence of pushing Japan too far and too quickly.

The strategy of incrementalism, however, is seriously flawed. First, it obscures the ultimate objective of alliance redefinition. While American and Japanese defense officials have stated that Japan should do more to cooperate with U.S. military forces, exactly how much and in what way remains quite unclear. Second, it avoids acknowledging the need for a frank and open discussion of security issues in Japan. Japanese officials have traditionally

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downplayed the strategic significance of changes in security policy to defuse ideological conflict. As a result, most Japanese politicians, as well as the general public, have only a cursory expertise about the details of security policy. This policy is not healthy for Japan or for the U.S.-Japan alliance. Finally, incrementalism narrows the strategic agenda overmuch. Maintaining peace and stability in the Asia-Pacific requires more than military means. Washington and Tokyo must broaden the discussion to the coordination of diplomacy and economic policy to nurture a more benign regional environment.

A NEW CONSENSUS AT HOME

Transforming the U.S.-Japan security relationship into a true alliance will require first of all forging a new domestic consensus in both Japan and the United States.

Recent trends in Japan present an opportunity to mobilize political support for a more activist security policy. With the October 1996 election, the Social Democratic Party has shrunk to a minor political force, and the new Democratic Party led by young politicians born in the postwar era has emerged as a pivotal group. Unlike the pacifist Social Democrats, the Democrats are more willing to inject a healthy dose of realism into their dovish outlook. For example, in exchange for a reduction of U.S. military facilities in Okinawa, the Democratic Party supports Japan taking on new defense functions within the framework of the

for U.S. forces during peacetime for training, joint exercises, peacekeeping operations, and humanitarian missions. And the two nations agreed to review the 1978 Guidelines for Japan-U.S. Defense Cooperation to enhance coordination and cooperation to deal "with situations that may emerge in the areas surrounding Japan and which will have an important influence on the peace and security of Japan." But progress has been slow.

In redefining the alliance, defense officials on both sides have adopted an incremental approach. At present, what will *not* change is clearer than what *will*. The Japanese constitution—in which the Japanese people "forever renounce war" and declare that "land, sea, and air forces, as well as other war potential, will never be maintained"—is not to be amended or reinterpreted. Japan will not abandon its "exclusive defense" concept, whereby it is prevented from exercising its right of collective self-defense in regional matters that do not involve aggression against Japan. The longstanding U.S.-Japan security pact is not to be revised. The current U.S. force structure in Japan is not to be altered. Alliance redefinition, whatever that is to mean, is to be primarily a bureaucratic process with public discussion kept to a minimum.

In Japan, domestic political constraints have prompted this approach. Political realignment in 1993 and the end of the Liberal Democratic Party's postwar hold on government finally induced the Japan Socialist Party (now the Social Democratic Party of Japan) to change its traditional platform of unarmed

constitution. With the demise of the old Social Democrats as an obstructionist force in defense policymaking, there is now an opportunity to develop a new security consensus.

For the United States, the critical challenge will be developing a strategic vision and a clearer sense of priorities. Its favorable geopolitical position coupled with pressing domestic problems will inevitably tug the United States toward a more modest foreign policy. Yet America's stake in the global economy and its sense of historical mission will restrain the isolationist impulse. What will be increasingly debated is not the question of international involvement as such, but the terms of that involvement. Despite America's temptation to resort to unilateral action, the active support of allies will become more and more critical to sustain domestic support for foreign engagements. In East Asia, American foreign policy encompasses multiple objectives: preventing the emergence of a regional hegemon or hostile coalition, deterring attacks on allies and defending them if deterrence fails, checking the proliferation of weapons of mass destruction, improving access to the region's growing markets, and promoting democracy and human rights. Weaving these different goals into a coherent and integrated strategy is hard enough in the abstract. The task becomes virtually impossible without presidential leadership in defining priorities and mobilizing domestic political consensus, especially in Congress. Absent such leadership, policy will be ad hoc, inconsistent, and essentially reactive.

RESTRUCTURING THE ALLIANCE

The time has come to strike a new strategic bargain between Japan and the United States. Under current arrangements, the alliance may not weather the test of a severe security crisis. The Persian Gulf crisis and war of 1990–91 provoked international criticism of Japan's limited role, wounded Japanese pride, and proved the inadequacy of checkbook diplomacy. Hesitation from Japan in another crisis could severely strain the alliance. When shared vital interests are at stake, Japanese financial contributions will be inadequate to convince Americans about the alliance's importance. Preventing a rupture of the alliance during a crisis, therefore, requires altering the terms of the security relationship before such a crisis occurs.

While the Pentagon has temporarily defused tensions on Okinawa, there is now widespread support in Japan for a gradual but significant reduction of the U.S. military presence in Okinawa and elsewhere. Rather than inflexibly sticking to the need for 47,000 U.S. troops in Japan, the United States should adopt a roles-and-mission approach and determine what forward deployments are absolutely critical for deterrence and crisis response in light of changes in the strategic environment and technological capabilities. America's most important military assets in Japan are its air and naval power. Washington should make the adjustments necessary to sustain Japan's willingness to

host these assets. In return, Japan should take steps to support U.S. military operations in regional contingencies and to facilitate rapid deployments into and out of Japan during an emergency. If such a bargain can be struck, the Marine combat forces in Okinawa could be removed without impairing U.S. military missions as long as Marine combat equipment is prepositioned on the island for ready use in a crisis. Such a move would go far in consolidating Japanese political support for the alliance well into the next century.

As the U.S.-Japan alliance becomes more reciprocal, the United States must genuinely consult Japan, not merely inform it of decisions already made. Although the two countries agreed to a prior consultations process when the 1960 bilateral security pact was signed, this mechanism has never been used. Because support for U.S. military operations beyond Japan would provoke such intense domestic controversy, Tokyo appeared to prefer not to be consulted. The Japanese government has applied such strict criteria for when Washington would have to consult with Tokyo that Washington has never had to get Japan's formal permission to use bases in Japan for military operations in Southeast Asia or the Middle East. The result has been, paradoxically, that pacifist

The time has come to strike a new strategic bargain between Japan and the United States. Under current arrangements, the alliance may not weather the test of a severe security crisis.

Japan has given the United States freer rein on the use of overseas bases than America's European allies. Japan's abdication of its right to be consulted has fueled public distrust in Japan about bilateral defense cooperation. A healthier alliance demands prior consultation. As Japan musters the courage and will to say "yes" to collective defense and security missions, it should also gain the right to say "no" when it disagrees with U.S. policy. The U.S.-Japan alliance would then evolve toward something akin to America's strategic relationships with the major West European allies.

The centrality of the U.S.-Japan alliance for the regional security environment makes it much more than a bilateral issue. While greater Japanese military support for U.S. forces may strengthen deterrence and the ability to respond to regional crises, it may aggravate Asian concerns about Japan's remilitarization, possibly even fueling a new regional arms race. Some Asian states might also interpret this move as the precursor to American military disengagement. Any attempt to restructure the alliance must therefore be sensitive to its possible impact on the rest of the region. Japanese leaders must deal more forthrightly with the historical issues concerning Japan's militarist past to reassure Asians about Japan playing a more prominent regional security role. And U.S. leaders must convince the region that changes in U.S. force structure in Japan do not

weaken America's capacity to deter aggression and respond effectively when aggression occurs, but rather make U.S. forward deployments in Japan politically more sustainable.

Finally, as critical as deterrence and crisis management are, they are by no means sufficient to promote regional security. The United States and Japan must move beyond a strategy of military presence to develop an effective regional strategy to reduce tensions and prevent crisis. Keeping 100,000 troops in the

East Asia-Pacific region is a poor surrogate for a comprehensive Asia policy. More realism is necessary in claims about what this military presence accomplishes. The "regional cooperation" section of the April 1996 U.S.-Japan Joint Declaration on Security did nothing more than list in general terms common regional security goals regarding Korea, China, Russia, and Southeast Asia. What is desperately needed now is a concrete, coordinated policy to achieve these objectives. ■

CHINA

HARRY HARDING

Last January, a high-level Chinese official visiting the United States aptly summarized Sino-American relations at the beginning of the second Clinton term. "The atmosphere is better," he told his American hosts, "but the problems are many."

The atmosphere of U.S. relations with China is better because, for the first time in four years, the Clinton administration has finally put a sensible China policy in place. Practice, it seems, is paying off. The new approach is no less than the third distinct policy toward China adopted by the U.S. government since President Clinton took office in January 1993.

OFF TO A SHAKY START

The first policy, born of a campaign promise to stop "coddling dictators" in Beijing, involved a single-minded focus on promoting human rights in China. It was based on the assumption that only intense pressure, principally through the threat to revoke China's most-favored-nation trade status, could force Beijing to improve its human rights record. High-level contact with China was to be withheld until progress had been achieved.

By the end of 1993, however, it had become increasingly evident that China was not succumbing to the American pressure on human rights and that other aspects of the relationship warranted attention. At that point the administration unveiled its second China policy—one that it called "comprehensive engagement." It entailed more frequent exchange of cabinet-level visits to discuss a broader bilateral agenda. The aim was to show that, on these other issues, the United States and China might find areas of cooperation and

thus bring the overall relationship into better balance.

The problem was that the overall purpose of "engagement" was never effectively conveyed to Beijing. Even after the Clinton administration withdrew its threat to revoke Beijing's most-favored-nation status in the name of continued economic engagement with China, many Chinese concluded that "engagement" was simply a euphemism for containment and that American policy was really intended to keep China weak and divided so that it would never seriously challenge American preeminence in Asia.

The 1995 controversy over Taiwan President Lee Teng-hui's visit to the United States, and the subsequent Chinese military exercises in the Taiwan Strait, showed how deeply China had come to mistrust American intentions. From Beijing's perspective, the visa granted to Lee Teng-hui showed that Washington now planned to promote the independence of Taiwan as part of its overall strategy of containing the rise of Chinese power.



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ON THE RIGHT TRACK

The tensions in the Taiwan Strait persuaded the Clinton administration to adopt a fresh approach to China to reduce the chances of confrontation. The new policy, unveiled in the middle of last year, was an advance over “comprehensive engagement” in two ways. First, Washington explained that the purpose was not containment, as the Chinese feared, but rather the integration of China into the international community so that the rise of Chinese power could be absorbed in constructive ways. Second, the United States agreed to raise the official Sino-American dialogue to the highest level, offering the first bilateral summit meetings since George Bush’s visit to China in early 1989.

The Clinton administration’s third China policy has been reasonably well received in Beijing. The Chinese government seems to have accepted the assurances that the United States does not seek to contain China and that it hopes to achieve a cooperative relationship. Chinese officials particularly welcome Washington’s willingness to resume regular summit meetings between Chinese and American leaders. Thus, Chinese spokesmen have repeatedly said that the atmosphere for Sino-American relations has been significantly improved as a result of the new American initiative.

The atmosphere of U.S.-Chinese relations has improved, but a long list of vexing issues remains.

TROUBLE AHEAD?

But the U.S.-China relationship is still bedeviled by a long list of vexing issues, from trade to human rights, and from proliferation to Taiwan. Moreover, several of these problems could well be exacerbated during the early months of the second Clinton term.

Americans will pay close attention to the status of political rights and the integrity of the legal system in Hong Kong after it reverts to Chinese sovereignty on July 1. Beijing’s decisions to dismantle the Legislative Council elected in 1995, to revise some of the laws recently enacted to protect political rights, and to adopt new legislation against sedition have already caused great concern in the United States. Any restrictions on the freedoms of speech, press, or organization after July 1 could touch off a crisis in Sino-American relations, especially if the strictures involved the visible suppression of political protest.

In addition, China’s trade surplus with the United States, at least as measured by official American statistics, will probably exceed Japan’s trade surplus with the United States this year. This will intensify American charges that China is, in the economic sphere, becoming a “second Japan”—engaging in a neo-mercantilist trade policy that promotes exports to foreign countries while restricting access to the Chinese market.

And other sensitive issues could very likely flare up again in the months ahead. Actions by Taipei that are interpreted in China as moves toward independence could again provoke Beijing to bring military pressure to bear against Taiwan. Evidence of Chinese ex-

ports of missile technology could trigger pressure to apply the economic sanctions required by U.S. law. Sales of other kinds of military technology to what the United States regards as “rogue states” could also produce serious tensions in Sino-American relations. And, finally, dramatic violations of human rights in China—especially the suppression of peaceful protests in a major Chinese city, a crackdown on ethnic separatists in Tibet or Xinjiang, or the harsh sentencing of political dissidents—could derail the plans for Sino-American summit meetings.

Moreover, the two countries’ ability to deal with these issues constructively will be limited by domestic political considerations. Now that Deng Xiaoping is dead, Jiang Zemin will be preoccupied with consolidating his own power and may be reluctant to take controversial initiatives toward the United States. And although Clinton won a decisive reelection victory last November, he must anticipate continued Republican criticism of his China policy, especially given the emerging scandals involving Asian financial contributions to his election campaign.

ACCENTUATE THE POSITIVE

Lasting improvement in Sino-American relations will require that the two countries manage these problems before new issues arise. How might this be done?

Agreement on the terms for China’s accession to the World Trade Organization would be the single biggest step the two countries could take to consolidate their new relationship. For Beijing, admission to the WTO would burnish China’s standing as a major international power and would significantly enhance its prospects for receiving permanent unconditional most-favored-nation status from the United States. For Washington, Chinese membership in the WTO would win Beijing’s commitment to reforms that would ultimately provide greater international access to the Chinese market. China’s membership in the WTO would also make possible Taiwan’s accession to the same organization as a separate customs territory—a major breakthrough in Taiwan’s quest for enhanced international status.

China and the United States should also agree to collaborate on issues where their national interests coincide. Cooperative measures to promote peace on the Korean peninsula, security in the Middle East, environmental protection, and legal reforms in China are example of such an approach.

Finally, both sides should exercise restraint on potentially explosive issues: China on the South China Seas, Hong Kong, and proliferation, the United States on Taiwan. The aim would be to avoid any steps that could disrupt the reconstruction of Sino-American relations.

The challenge for the second Clinton administration will be to use the more positive atmosphere to address the problems successfully. If it cannot, the problems could poison the otherwise promising atmosphere. ■

FOREIGN POLICY TOOLS



THE FOREIGN AFFAIRS BUDGET

MICKY EDWARDS & STEPHEN J. SOLARZ

American spending on foreign assistance and diplomacy has fallen by more than 15 percent since the 1980s. Under current plans to balance the federal budget by 2002, the U.S. international affairs budget would fall again as much—if not more.

With the Cold War over, it is only natural that the United States focus more on domestic concerns. But domestic renewal must not blind us to the world's continuing dangers. Ethnic strife, regional instability, crime, narcotics, terrorism, famine, environmental degradation, fanaticism, and rogue regimes with mass destruction capabilities have taken the place of the global communist threat. Unless the United States is prepared to spend the money necessary to address these dangers, it cannot effectively protect its interests and provide world leadership in these important arenas.

Moreover, wise use of the foreign affairs account to strengthen friendly forces and calm and defuse potentially explosive situations can reduce demands on U.S. military forces, potentially saving much more money in the defense account.

ONE CENT ON THE FEDERAL DOLLAR

What is our government now spending to meet its global challenges and opportunities? In 1997 Washington will spend a total of \$19.6 billion—just a bit more than 1 percent of the overall federal budget—for its diplomatic missions, foreign assistance, and related activities like Export-Import Bank financing for U.S. businesses. International affairs spending is the only major category of the federal budget to have suffered real cuts since 1980, and one of only two (the Pentagon is the other) to have been cut since 1990.

And much worse may be in store. President Clinton's fiscal plan released last month anticipates that real funding for international affairs would fall to \$16.8 billion by 2002 in constant 1997 dollars. But if Clinton agrees, as he is likely to do, to use the economic assumptions of the Congressional Budget Office



in any long-term agreement with Congress to balance the budget by 2002, he will have to cut more.

ROBBING PETER TO PAY PAUL

The State Department and its 260-plus overseas posts constitute the basic and indispensable infrastructure on which all U.S. civilian—and many military—elements rely to protect and promote American interests around the world. Some 30 of these posts have been closed in the past three years for lack of oper-

Former Congressmen Mickey Edwards (R-OK) and Stephen J. Solarz (D-NY) chaired a recent independent task force on resources for U.S. international affairs that was sponsored by Brookings and the Council on Foreign Relations. This article is drawn from the report of the task force.

ating funds. Many of the remaining posts are ill-equipped. All are handicapped by obsolete information technology. Staffing is highly uneven, the cadre of language and area specialists has declined, and resources for public diplomacy are fast disappearing even as demands on our missions continue to grow.

The president, more than any other individual or institution of our system, bears the burden of responsibility for the success or failure of American foreign policy.

Recently Washington has been forced to make some rather arbitrary decisions about what it can and cannot do. To help stabilize Haiti, it had to cut economic support for Turkey, an ally critical to U.S. interests in the Middle East. To provide aid to the West Bank and Gaza, it had to use funds intended to help demobilize the armed forces of parties to a Central American peace agreement that had been years in the negotiating. To come up with the U.S. share of the financing package for Cambodia's first free election, Washington deferred for more than a year support for smaller initiatives in a dozen or so other countries. To respond to the refugee crisis in Rwanda, it had to take democratic institution-building funds from the rest of Africa at a moment when positive trends were emerging elsewhere on the continent. And when the State Department was unable to provide \$2 million to monitor a cease-fire between Kurdish factions in northern Iraq, hostilities between the factions were renewed, affording Saddam Hussein a pretext for sending forces into Northern Iraq (a move that culminated in U.S. military action costing multiples of \$2 million).

In addition, U.S. investment in economic development in poorer countries, either bilaterally or through international financial institutions like the World Bank, has fallen from an average of \$12 billion during the early 1990s to \$9 billion today—and is projected to fall more by 2002. The consequences of not investing in development are impossible to quantify. On the purely human dimension, U.S. bilateral leadership has been critical to recent worldwide advances in agricultural and medical research, as well as in primary education, family planning, and child nutrition and immunization programs. As we fall behind in our commitments to the international financial institutions, we risk losing our ability to shape their agendas in support of our objectives. Even more important are arrears to the United Nations. The United States now owes \$300 million for the regular UN budget and \$700 million for peacekeeping operations. How can we expect the UN to work on our behalf, especially after we successfully imposed our will on the issue of a new Secretary General, if we are not prepared to meet those obligations?

PAST TIME TO RESTORE FUNDING

The destructive funding trend of the past few years must be reversed. For the next fiscal year, spending should increase to at least \$21 billion, with annual adjustments through 2002 to offset inflation. That figure is still well below the average of 1980–95. The most crucial areas for expansion are \$150–\$250 million a year for new information technologies for the State Department and \$600 million more in economic and security support funds to allow the State Department to deal with unexpected emergencies around the world. Other important additions are \$200

million a year for five years to eliminate U.S. arrears to the UN, \$500 million to move bilateral development accounts back toward the average of the earlier 1990s, and several hundred million dollars each year to international financial institutions to make good on arrears and replenish or increase capitalization of multilateral banks and funding of the International Development Association.

PRESIDENTIAL LEADERSHIP

Clinton has spoken clearly about the imperatives of global leadership and its price. What remains is for him to recognize that without adequate resources it will not be possible to provide the global leadership that our national interests require.

In his 1998 budget request the president has at least arrested the decline in international spending for the next couple of years, though his long-term projections are not promising. He must also take the international affairs resource issue to the American people. The president, more than any other individual or institution of our system, bears the burden of responsibility for the success or failure of American foreign policy. He, better than anyone else, can make clear what it means not to have the resources required to protect and promote American values and interests. As commander in chief, the president can underscore the vital link between diplomacy and deterrence. Warren Christopher made this connection very plainly in speaking to the Corps of Cadets at West Point last October: "We will serve the American people best of all if we can prevent the conflicts and emergencies that call for a military response from ever arising." Having spoken to the American people, the president will then be in a position to reach out to the leadership of Congress. Financing international affairs must be a collaborative, nonpartisan undertaking.

The American people do not want to swap a budget deficit for a security deficit. Most Americans would probably be alarmed if the proposed international assistance budget cuts go through only to discover that America faces an influence gap in world affairs as we enter the 21st century. We can afford to do more. We cannot afford to do less. ■

At a time when the entire foreign affairs budget is under fire, it is more important than ever to address the question of whether foreign aid is effective. Official development assistance, or ODA, as the foreign assistance component of the foreign affairs budget is called, is roughly half of that budget, and is arguably the part about which the public is most skeptical.

The United States, once the world leader in global aid, is now in fourth place after Japan, Germany, and France in terms of absolute amounts. In terms of percentage of GDP, with 0.1 percent of American GDP allocated to ODA, the United States is well at the bottom of all industrialized nation donors. This clearly imperils U.S. leadership not only in international financial institutions such as the World Bank, but also in the aid debate more generally. Washington is increasingly being seen as unwilling to pay its global dues.

It is time to ask some hard questions about foreign aid. What do we know about it? Does it work? Is it effective? There has been much debate in recent years. I'd like to try to sum up what we know about aid effectiveness—and what we don't.

One reason for the extensive debate over aid is that so many diverse objectives drive its allocation that it is hard to evaluate how effective it is. While economic growth is clearly not the sole objective of foreign assistance, it's one of the few areas where empirical evidence permits evaluation. Growth is also important because without growth it is difficult, if not impossible, to achieve all the other goals—security, human rights, democracy—attributed to aid.

Recently the debate has been heightened by a series of studies that have found a negative relationship between conditioned aid flows and economic growth, particularly in low-income countries in Africa. These same studies, however, are also finding that the broader policy orientation that aid seeks to promote—market-friendly, open economic policies with prudent macroeconomic management—is producing strong results in countries worldwide. And the experience of many Asian countries and, more recently, many Latin American countries confirms that appropriate policies do yield good results.

These findings raise three questions about aid flows. First, is aid ineffective, or would poor economic performers have fared worse without aid? Second, how effective is conditionality in its current form? How are we allocating aid, and how is it working? And third, what is the causal relationship? Do policies produce growth, or do better initial economic conditions facilitate the implementation of better policies?

CAN AID SLOW GROWTH?

What accounts for the negative correlation between aid flows and growth performance? Africa, for example, receives 10

times more aid per capita than Latin America or East Asia and yet performs far worse by most or all economic measures. There are several explanations, and I don't want to oversimplify the issue, but one point is clear. By removing a hard budget constraint, aid inflows to a country can impede formation of a domestic consensus on the need for difficult economic reforms. Recent research on economic crisis undertaken at the World Bank suggests that countries that enter high-inflation crises tend to implement more complete reforms and then enjoy higher average growth rates than countries that just muddle

FOREIGN AID

CAROL GRAHAM



along at "medium" inflation rates. What happens is that aid flows are often cut off in countries with very high inflation rates but continue in countries with medium inflation rates. These aid flows protect countries from the full costs of bad

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economic policies, often preventing the onset of deeper crisis and the important policy learning experience that is often critical to successful economic reform. Countries often have to hit bottom to get a domestic consensus on the need for economic

Uncertainty about foreign aid effectiveness, uncomfortable enough at any time, is particularly worrisome when the foreign affairs budget is under fire.

reforms. Of course, allowing countries to enter acute crisis is hardly an acceptable policy recommendation. And to complicate the issue further, it's also important to note that in some cases aid has actually helped develop a consensus in favor of market reforms. For example, in Poland in 1989 the promise of foreign aid as something that the reform team could deliver was critical to the election of that team and the undertaking of market reform.

Both the timing and the role of aid flows in the implementation of policy reforms is still being widely debated. But what we clearly do know is that financial aid to countries where there is no consensus at all in favor of reform has a negative impact.

STOPPING THE FLOW OF INEFFECTIVE AID

How and why has so much aid continued to flow under such conditions? Conditionality, which is how aid is appropriated for the most part, is usually applied "ex ante," that is, borrowing countries must meet certain conditions to be eligible for a loan and then must continue to meet those conditions along the way as aid is disbursed. But despite a marked increase in conditional lending in the past decade, and also an increase in the number of conditions on each loan, conditionality has not been particularly effective in attaining borrower compliance. The higher number of conditions actually seems to decrease borrower ownership of reforms. It creates a vicious cycle: weak compliance with conditions prompts donors to impose more conditions, increased conditions make it yet harder for the recipient to comply, thus increasing the incentive not to comply, and so on. On the donor side, meanwhile, the incentive structure rewards continued lending rather than halting financial flows in response to breaches in compliance. Ultimately multilateral institutions are lending institutions, and they must lend to remain operational. It's their *raison d'être*. So the average loan officer at the World Bank or the Inter-American Development Bank has a lot more incentives to disburse loans on time than to enforce strict compliance among recipients of those loans.

As a result, many countries continue to receive loans even though they have bad records at both compliance and policy reform. It's increasingly evident, at least to those who observe it closely, that we have to move to more selective lending, with less

focus on detailed conditions and more focus on building overall agreement on a policy package. At the very least we really have to stop lending to countries with major slippage on conditions.

While the shift to more selective lending makes intuitive sense, it also entails substantial risk. For example, withdrawing funds, particularly from many poor countries in Africa, may well spur the adoption of policy reforms in some, but in others it will cause performance to deteriorate even further, and at a relatively high human cost. At the least, one would need to maintain humanitarian and technical assistance. There could also be other

costs to lending more selectively. A lot of the lending that takes place now is undertaken to enable debtor countries to pay back loans. For example, when heavily indebted countries default on loans, somebody is going to have to pay the cost. So a shift to selective lending must be taken with care, and while budget cutters would like to see it as a way of saving money, in the short term a shift toward more selective and more effective lending would actually increase costs.

THE CHICKEN OR THE EGG?

The final question is whether policies or initial conditions determine a country's economic performance. One school of thought is that poor countries perform badly on the macroeconomic front because of their weak initial conditions: a very poor country's performance is almost predetermined regardless of the level of aid. But some recent research refutes this view. Jeffrey Sachs and Andrew Warner of Harvard University did a study of the effects of policy as against those of initial economic conditions on economic performance. Using a sample of more than 100 countries, they found that countries that follow standard, market-oriented policies, and in particular maintain open trading regimes, have an overwhelming tendency to grow faster and converge with wealthier countries, regardless of initial conditions. Indeed, they had trouble finding a single case where a poor country that protected property rights and maintained economic openness did not grow. Very few of the countries that pursued poor policies, meanwhile, grew at equivalent rates. One that did was China. In fact, one reason why China is growing is that half of its economy actually functions with the market policies that produce growth in all the other countries. In any event, we have increasing evidence besides the Sachs and Warner study that good policies produce growth performance and poor policies do not, and that initial conditions are not a predetermining factor.

We need to know more about how aid can better support the adoption of appropriate policies. We have a sense that the answer lies in a more selective aid strategy, but the debate over the appropriate timing and level of aid flows is unresolved. Such uncertainty about aid effectiveness, uncomfortable enough at any time, is particularly worrisome when the foreign affairs budget is under fire. ■

DEFENSE SPENDING

MICHAEL O'HANLON

As Congress shapes the federal budget for 1998, with the goal of fiscal balance by 2002, debate rages over whether it is possible, once again, to cut U.S. defense spending.

Some analysts argue that today's military, with annual real spending still 85 percent of the Cold War average, remains greatly overfunded for the challenges of the post-Soviet world. Others warn of a widening chasm between projected budget resources and the funding requirements for a military that retains many global commitments and remains active from Bosnia to the Persian Gulf to the Korean Peninsula to the Taiwan Straits.

In my view, small additional force cuts are possible. But they would probably reduce Pentagon spending only modestly and

temporarily, given the 10 percent real cutbacks already anticipated for the year 2002 under the president's budget. (That cut is measured relative to the 1997 spending level; Congress would make slightly deeper cuts by 2002.) The reason, in a nutshell, is the looming need for more weapons procurement spending.

IS THERE A FUNDING SHORTFALL NOW?

Is the U.S. military underfunded for maintaining an active-duty force of nearly 1.5 million soldiers, sailors, airmen, and Marines? Although certain parts of the force are strained because of peace operations in places like Bosnia, the answer, for now, is no. It is harder, however, to be equally sanguine about the next decade.

Today's military is in quite good shape, at or near its historical peak in quality and fitness. Department of Defense employees are being reasonably well compensated. Military salaries are down slightly from recent years and are perhaps slightly less than would be ideal, but still compare acceptably with pay for similar work in the private sector.

Funding for training combat forces as well as repairing and maintaining equipment is high, even by comparison with the Reagan years. In fact, on a per capita basis, such funding is too high, largely because of the costs both of closing bases and of continuing to maintain more bases than are needed. Even taking into account such distortions, as well as the increased costs of health care, real readiness funding remains robust. Such indicators as spare parts availability, weapons usability rates, accident rates, and training hours are favorable and provide concrete evidence that resources are adequate.

In the past few years, readiness concerns have arisen in connection with the financial and hu-



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man costs of unexpected operations, of which there have been many. Some are related to peacekeeping (the Golan Heights), peace implementation (Bosnia), or peace imposition (Haiti); others involve keeping pressure on Iraq's Saddam Hussein or responding to his provocations; still others concern humanitarian relief. These operations have been averaging about 20,000 troops at a time and \$3 billion a year (or 1 percent of the Pentagon's budget)—not a great deal in the scheme of things, but sometimes enough to disrupt the training and operations of various military units.

Fortunately, funding amends have been made quickly—in 1993 and 1994 through supplemental appropriations, in 1995 and 1996 by tapping into funds the 104th Congress had added to the president's Pentagon budget request. As long as funding for contingencies can be found, readiness will not suffer unduly, though Pentagon leaders must ensure that certain units do not wind up disproportionately burdened by such operations (as the Army's 10th Mountain Division and Europe-based Air Force wings arguably have been).

Can slightly fewer than 1.5 million American troops, well-maintained and equipped and ready, satisfy the dictates of national security strategy?

Planners need to remember that \$2–\$3 billion a year more than anticipated will often be needed for contingency operations in places like Bosnia. A comparable sum would, if available, ensure that military pay is not only adequate, but good. But neither issue is causing an acute problem today.

THE LOOMING PROCUREMENT SHORTFALL

One way the Clinton administration has kept readiness high has been to make deep cuts in spending for new weapons. The 104th Congress restored some of the programs that were axed in favor of readiness. But Congress's extra pot of gold is scheduled to be empty again within the next couple of years.

Over a 30-year period, defense procurement averages about 25 percent of Pentagon spending. Today, however, weapons purchases are only about 15 percent of total spending. One reason the shortfall has been tolerable is that the Reagan buildup produced a weapons bonanza. A second is that the defense drawdown of the early 1990s allowed selective retirements of older equipment. But the "procurement holiday" will soon be over. Future costs of purchasing weapons are almost sure to meet or, because of continued technology advances, even exceed the 25 percent average. Thus annual procurement costs will probably grow by \$25 billion or more by the early years of

the next century.

Savings from base closures will provide a few billion dollars toward that end. Taking some programs like the F-22 fighter out of the research and development account will free up another \$5 billion. Procurement reforms and greater use of commercial goods may help limit cost growth a little as well. But those annual savings come up at least \$10 billion short.

What does that \$10 billion mean in perspective? Once the defense drawdown is complete by 2002, the real budget for national security spending will be about \$245 billion (in 1997 dollars)—down from \$268 billion in 1997 and \$360 billion in 1990. But it will almost assuredly need to go up in future years—probably to about \$260 billion, or nearly the present (1997) level.

The main cost drivers are airplanes. The Air Force's F-22 and the three-service Joint Strike Fighter will pose multibillion-dollar demands. The Army and Marine Corps plan to buy the Comanche scout-attack helicopter and V-22 tilt-rotor transport aircraft, respectively. New strategic lift aircraft may be needed above and beyond the 120 C-17s now being acquired. New attack submarines will also be needed in substantial numbers. And a wide array of precision-guided munitions, as well as the sensors and satellites to find targets and guide the ordnance to them, are on the shopping list as well.

What if the Pentagon's ongoing Quadrennial Defense Review, expected to be finished in May, were to change the current two-war strategy and reduce the size of the military? If so, real spending would still need to go up—though against a lower benchmark—next decade. Defense spending would be lower than it would have been otherwise, but would still need to be higher in 2005 than in 2000. Given the upward pressure of domestic entitlement spending, however, no cautious Pentagon planner can like the idea of assuming that real defense spending increases will materialize in a few years. For that reason, even Pentagon analysts who are critical of the two-major-war strategy are unlikely to endorse large force cuts this year. They will probably prefer to keep the "extra forces" for now, as a possible bill payer for new equipment purchases next decade. If real spending increases do not occur then, some manpower could be cut to free up funds for hardware. That approach could allow the military to get by with a steady budget of less than \$250 billion, in 1997 dollars, well into the next century.

THE TWO-WAR REQUIREMENT

Can slightly fewer than 1.5 million troops, well-maintained and equipped and ready, satisfy the dictates of national security strategy?

Here the answer is mixed. Those troops probably could not fight two overlapping wars on the scale of Desert Storm. But they are probably up to the task of waging and winning two si-

multaneous campaigns on the scale that could be required by the size and nature of threats in Northeast and Southwest Asia.

The Desert Storm conflict involved roughly 8 ground combat divisions and more than 10 wings of Air Force combat aircraft, as well as 6 aircraft carriers and associated wings. Total U.S. uniformed personnel in the region exceeded 500,000. Today's force could only approach those numbers in two places at once if all assets, including reserves, were employed.

But that requirement is excessive. U.S. munitions and sensors are better today than they were in 1990-91. Iraq's fighting capability is diminished as a result of Desert Storm, and North Korea's still-large military has also continued to atrophy. Perhaps most important is the enhanced U.S. presence in the Persian Gulf. With nearly a division's worth of ground-combat material prepositioned there, roughly two wing-equivalents of Air Force and Navy aircraft in the immediate vicinity, and U.S. vigilance constant, Saddam would not get far before suffering blistering and debilitating attacks. Desert-Storm-like operations would probably be needed only if we decided to invade Iraq or North Korea and overthrow their regimes—not an operation that we probably need or want to undertake in two places at once in any case.

In short, we may not have a two-war capability of the demanding and rather hypothetical type Pentagon planners set their sights on in 1993. But we probably could prevail in nearly simultaneous lesser wars of a type more likely to arise.

AN ALTERNATIVE STRATEGIC APPROACH

In fact the two-major-war strategy is not necessary for the challenges of today's world. Not only have the Iraqi and North Korean threats declined, but also neither side is likely to perceive a window of opportunity to attack just because most U.S. forces are engaged in a war elsewhere. As long as the United States keeps a permanent military presence in Kuwait and South Korea and otherwise retains a clear public commitment to its interests in both regions, Baghdad and Pyongyang will know it would ultimately be suicide to attack.

Under such strategic circumstances, it would be enough to be able to win one Desert-Storm-like war—even if it goes badly and takes more force and more effort than expected—while being able to deter or if necessary begin to wage a second, in the manner of Desert Shield. If an occupation of enemy territory were needed, the second conflict could then be brought to a conclusion after the first was won (or reserves were fully trained). This “Desert Storm plus Desert Shield” approach seems a reasonable replacement for the two-major-war strategy. Critics might call it “win-hold-win,” but, given the diminution of threats in the 1990s, it is better described as “overthrow-defeat-overthrow.”

That is not quite the end of it, however. Today's U.S. mil-

itary also needs to organize for the missions it is actually conducting day in and day out. Peace operations place demands on units like military police that are currently found principally in the reserve component of the force; some should be put into the active force. We need more airlift to handle such operations and to increase the speed with which we could deploy forces to a hot spot in time of trouble. And we need to

The plan proposed here would permit savings of as much as \$20 billion in 2001 or 2002. But the generals will need some of that money back thereafter.

have enough force to leave a division in a place like Bosnia even while executing a Desert Storm and a Desert Shield. Since Desert-Shield-like deterrence operations put a high premium on rapid reaction, it will not do to dig forces out of the Balkan mud or Central African rain forest to protect important U.S. national interests. In the end, the future strategy should be guided by a simultaneous “Desert Storm plus Desert Shield plus Bosnia” framework.

One final point. The force structure of the Navy is established by reference less to warfighting requirements than to the global presence mission. The Navy could maintain the same presence with fewer aircraft carriers and other ships if it changed the way it conducts its mission. Today the Navy sends ships on overseas deployments for only about six months at a stretch, primarily to keep sailors' time away from home and families to a minimum. As a consequence it must keep five ships in the fleet to maintain one continuous deployment. During the Cold War, when we wanted a big Navy in case global war broke out with the Soviet Union, the inefficiency did not matter so much. Today it is a waste. The Navy's own Center for Naval Analyses, as well as the Congressional Budget Office, has recently given credence to the idea of leaving ships deployed overseas for up to two years and rotating crews by air.

Adopting the “Desert Storm plus Desert Shield plus Bosnia” strategy and revising naval operations would allow a cut of roughly 10 percent in Pentagon forces. It would also permit some near-term budget savings beyond those now planned, reaching as much as \$20 billion in the year 2001 or 2002.

But the generals will need some of that money back in the years thereafter. The U.S. economy, which will be larger then, should be able to provide it—but only if we can get a better handle on entitlement spending. Since few have confidence that we will, don't expect the Pentagon to say it can get by with a smaller budget any time soon. ■

THE USE OF FORCE

In 1992 Army General Barry McCaffrey (now the drug czar) of the Joint Chiefs of Staff testified before Congress on the crisis in the Balkans. McCaffrey told the legislators that the Joint Chiefs, then chaired by General Colin Powell, had concluded that 400,000 ground troops and a year-long bombing campaign would be needed to defeat the Bosnian Serbs. Powell and his colleagues felt that a military intervention in Bosnia would be more difficult than the guerrilla war in Vietnam. A year later Powell himself told the newly elected President Clinton essentially the same thing. Not surprisingly, neither the president nor Congress wished to undertake such a massive military commitment in an area that appeared to have only a marginal security interest.

The advice that Powell and his colleagues gave to their political superiors in the early 1990s was based on two considerations. First, the military did not want to become involved in another long-drawn-out Vietnam-type quagmire. If force were to be used, the chiefs felt it should be applied massively and only for the most urgent reasons. Second, the military did not want to undermine its readiness for real combat by being diverted to peacekeeping or humanitarian operations. As Secretary of Defense William Perry was to remark in November 1994, "We field an army, not a Salvation Army." Powell and his colleagues structured the armed forces to fight two major regional contingencies simultaneously. This position, which was popularly known as the Powell Doctrine, was opposed by many civilian policymakers, especially Madeleine Albright, then U.S. ambassador to the United Nations. At one point in the spring of 1993, she exploded in frustration at Powell. "What's the point of having this superb military you're always talking about if we can't use it?" The current secretary of state embraced what she called a doability doctrine, that is, America should use its military power in flexible ways to address practical if limited goals.

The public, however, clearly supported the Powell Doctrine.

When 18 Rangers were killed in Somalia in October 1993, the public outcry forced President Clinton to withdraw the forces, and throughout 1993 and 1994 there was little public support for sending American forces into areas like Haiti or Bosnia when Clinton and the other members of his national security team suggested that such actions might be necessary.

U.S. FORCES ON THE MOVE

But in the last two years of the first Clinton administration, with General Powell out of office, military force was used increasingly by the president. In September 1994, some 20,000 troops were sent into Haiti; two months later some forces were sent into Rwanda; in December 1995, 30,000 U.S. ground troops were sent into Bosnia as part of a NATO force; and in

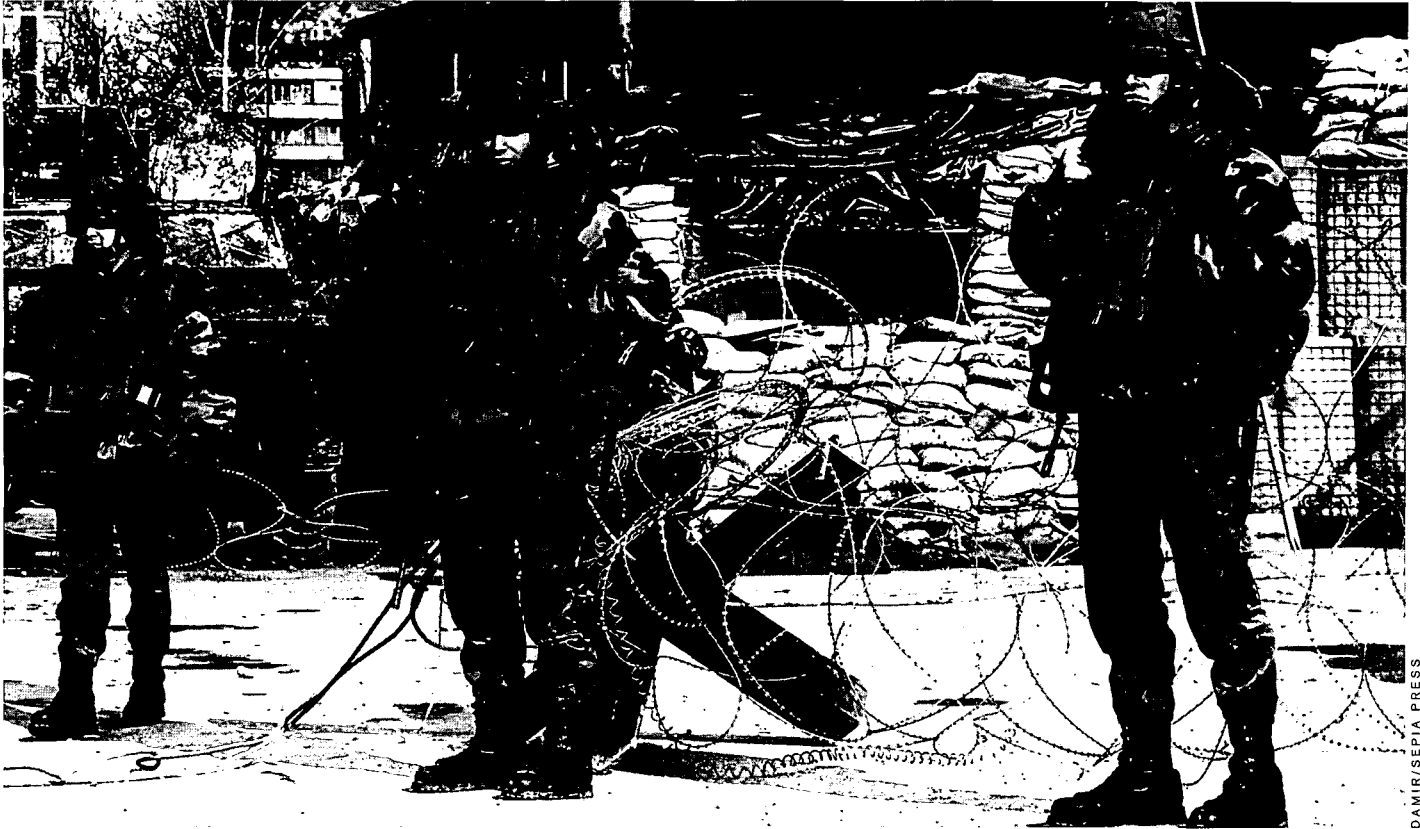
late 1996 the president indicated that we would join a Canada-led mission to Zaire. In the 1996 presidential campaign, the Republican candidate, Bob Dole, noted that President Clinton had presided over more military deployments than

UN Ambassador Madeleine Albright exploded in frustration, "What's the point of having this superb military you're always talking about if we can't use it?"

any of his predecessors and accused Clinton of misusing U.S. troops for ill-defended interventions. General Dennis Reimer, the Army Chief of Staff, noted that Army troops had been deployed in significant operations 25 times since the fall of the Berlin Wall.

These military interventions apparently violated both the letter and spirit of the Powell Doctrine. Force was not massive and our vital interests were not involved. Moreover, these operations took significant numbers of military forces away from training for combat and caused funding shortages in the Pentagon's training budget. However, the operations provoked little outcry from the Pentagon or the public. Secretary of Defense

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Perry even went so far as to argue that interventions like Bosnia and Haiti followed the Powell Doctrine because the missions were clearly defined, the rules of engagement were precise, and troop levels were sufficiently large.

There were several reasons for the lack of opposition. First, the operations were virtually casualty free. Second, many military leaders realized that carrying out these operations could help justify maintaining a sizable force structure and budget. Indeed, between 1994 and early 1997, Clinton added about \$100 billion to his own defense program. Third, the administration used an exit date as a substitute for a real strategy or clear goals. American intervention in Haiti, ostensibly to restore democracy, was given a 6-month deadline. The Bosnian operation, which was supposed to create a peaceful multicultural state, was first given a 12-month limit and then another 18 months. The exit has become the strategy! In reality, the intervention forces in Bosnia are not being allowed to fulfill their mission of bringing real peace to that beleaguered state. The military cannot arrest and prosecute war criminals for fear of taking casualties.

The issue is clearly not settled and will not go away. In his State of the Union address, which devoted twice as much time to foreign affairs as any of his previous four, President Clinton

seemed to indicate that he wanted to continue Albright's doability doctrine. He talked about this nation taking reasonable risks for peace that would keep us from being drawn into larger conflicts later. But his new secretary of defense, William Cohen, is apparently calling for a return to the Powell Doctrine. In his first days in office, he made it clear that U.S. forces will leave Bosnia in 18 months regardless; that the U.S. military should avoid overcommitments in humanitarian operations be-

cause they undermine troop readiness; and that when committed, U.S. forces will respond with overwhelming power.

These issues need to come to closure and fast. If the administration wants to continue to practice the new secre-

tary of state's doability doctrine, it must structure its forces accordingly. This means abrogating the two-major-regional contingency strategy formulated by Powell; maintaining a larger active army; and keeping all our forces in a higher state of readiness for possible deployment. Moreover, the president should not set deadlines, but rather objectives, when he intervenes, or else the intervention may come to naught. Finally, the president must make it clear to Congress and the American people that he intends to pursue such a policy. If he does not, our interventions in areas like Bosnia could end after the first few casualties. ■

But the military did not want peace-keeping operations to undermine its readiness for real combat. Defense Secretary William Perry noted, "We field an army, not a Salvation Army."

FOREIGN POLICY FLASH- POINTS



THE MIDDLE EAST

SHIBLEY TELHAMI

Last January's heralded Israeli-Palestinian agreement to implement the long-delayed Israeli withdrawal from Hebron and to set dates for full implementation of the Oslo accords was a critical step toward Middle East peace. It stopped the backward movement in the peace process that began with the election last May of the Likud party's Benjamin Netanyahu as Israel's prime minister, and it laid the ground for an essential working relationship between Netanyahu and Palestinian leader Yassir Arafat. But the post-election setback to the peace process has been so profound that the agreement by itself will be unlikely to reverse deep regional suspicions. And because regional confidence in the process has been significantly undermined, the role of the United States will be more critical than it has been in recent years.

The change in regional attitudes since the Israeli elections has been consequential not only for the Arab-Israeli peace process but also for U.S. policy in the Persian Gulf. The Netanyahu government's pursuit of ambitious settlement policies in the West Bank and its footdragging in implementing the Oslo accords, problematic enough themselves, are symptoms of a bigger crisis in the region that has been only partly ameliorated by the Hebron withdrawal: a paradigmatic shift in the outlook in the Arab world, not only on the Palestinian-Israeli front, but regionwide.

A PSYCHOLOGY OF PEACE

Washington's biggest accomplishment in the Middle East since the signing of the Oslo accords in 1993 has been to persuade Arab and Israeli moderates that they have more interests in common with each other than with extremists on their own sides—and that the peace process is really irreversible. In essence, the United States was able to get regional leaders to compete to see who could jump on the winning bandwagon first. The psychology of peace prevailed even as the process itself confronted crises. Although neither the Arabs nor the Israelis were happy with the peace that was unfolding, both sides, having made the leap of reconciliation, were headed into the final outcome. Then, following the Israeli election, that paradigm all but collapsed, giving way to growing perceptions of inevitable conflict and a psychology of zero-sum interests between Israel and the Arab states.

At the core of this paradigmatic shift was an assessment of the prospects for a Palestinian-Israeli deal that is viewed as the cornerstone of broader Arab-Israeli peace. The importance of the psychological outlook for regional peace is evident in the way the peace process between Israel and the Palestinians moved steadily forward before the Israeli elections despite serious obstacles. Israelis and Palestinians continued to experience ugly terrorism, and the Palestinian situation on the ground actually deteriorated. The economy dropped by 30 percent, unemployment rose, mobility was further restricted. The belief of both sides that the process was working was driven by the leap of faith by the Labor government and the PLO that they would ultimately have a peace based on Palestinian independence, possibly a demilitarized Palestinian state, consistent with Israeli security needs—with both sides knowing all the while that the issues separating them are tough and will take long to negotiate.

The new psychology that emerged following last May's Israeli elections assumed that the Israeli government was no longer part of that deal. U.S. mediators had spent the years since the Oslo accords trying to persuade Arabs, especially Syrians, of the substantive differences in Israel between moderates and extremists, between the Labor and Likud parties. Many in the Arab world had believed that the only foreign policy differences between the two parties were tactical. It took a great deal of diplomacy—and the 1995 assassination of Israel's Labor prime minister, Yitzhak Rabin, by a peace opponent—to persuade many Arabs that the differences within Israel are indeed serious and that the Palestinians would be better off making a deal with Israel's Labor leaders. Likewise, many Israelis had come to believe that serious differences separate Arab moderates from extremists. But that very success was predicated on identifying the Likud party, and its leader, Netanyahu, as being the obstacles to that peace. And just as this psychological transformation was completed, the election put Netanyahu at the head of Israel's government. It was not an easy matter to persuade Arabs that the new leader could reach out for peace with the Arabs the way that Richard Nixon had done for the United States with China. Netanyahu himself did not help matters, for his pronouncements challenging the principle of exchanging territories for peace and his settlement policies coincided well with the deeply entrenched Arab interpretation of his goals.

SPREADING CIRCLES OF DOUBT

The near-collapse of the paradigm of peace between Israel and its Arab neighbors was not confined to the Palestinian-Israeli front. It extended to Israel's relations with other Arab states and even to the Persian Gulf, where the United States has significant material interests. On the Syrian front, the wide gap between the stated positions of Syria and Israel on the extent, or even the principle, of Israeli withdrawal from the Golan Heights reduces the chance of an agreement in the next four years. In Jordan and Egypt, the countries that have peace treaties with Israel, the Palestinian-Israeli agreement of 1993 had been used as a fig leaf to further normalize relations. The ascendance of Netanyahu made it difficult for both governments to continue moving in that direction, especially in the face of mounting internal opposition. The Hebron withdrawal has not significantly repaired the damage to elite and popular perceptions of the prospects for peace in both countries.

The Persian Gulf region has also been negatively affected in important ways. In the past five years, the United States has been successfully separating Persian Gulf issues and the Arab-Israeli issues. In particular, Washington has managed to keep the slowness of the Arab-Israeli peace process from affecting important American strategies in the Gulf, including policy toward Iran and Iraq, and deployment of American forces in the region. While Syria, Egypt, and the Palestinians had serious reservations about some aspects of U.S. policy in the Gulf, the priority they placed on achieving Arab-Israeli agreements, and the indispensable role that the United States was seen to play in this regard, muted their reservations. Arabs of the Persian Gulf managed to take Israel out of their primary calculations of interest. The paradigmatic shift in the region, however, has revived old attitudes that see an Israeli strategy that seeks to divide and weaken the Arab world. Conspiracy theories involving Israel are advanced to explain the region's ills, including the trouble in northern Iraq and the survival of Saddam Hussein. This psychological outlook will make the implementation of U.S. policy in the Persian Gulf more difficult at a time when the honeymoon that the United States has experienced since 1991 in the Persian Gulf is coming to an end because of regional changes independent of the Arab-Israeli conflict. Local troubles ranging from domestic opposition to the U.S. military presence to conflicts with Iran and Iraq could become increasingly difficult for Washington to address because of revived links to the Arab-Israeli conflict.



Washington has managed to keep the slowness of the Arab-Israeli peace process from affecting important American strategies...

THE U.S. ROLE

What role can the Clinton administration play under these trying new circumstances? Let me say first what it must *not* do. Washington cannot afford to disengage either from the Persian Gulf or from the Arab-Israeli peace process. Material interests aside, the next suicide bombing or serious violence of any kind in the Middle East, especially against U.S. forces, will certainly propel domestic American pressure to intervene. The Persian Gulf region remains strategically important to the United States. American forces remain there and are likely to stay for some time to come. U.S. policies toward Iran and Iraq cannot simply be abandoned without a better alternative. Not least,

they are consequential for U.S. relations with Europe, Japan, China, and Russia. On the Arab-Israeli front, the United States cannot afford to backtrack in its commitment, especially given the regional loss of confidence in the Arab-Israeli peace process. At the very least, the parties must have faith in the United States. To that end, Washington must lay out its positions clearly and repeat them as often as opportunities allow, especially its steadfast commitment to implementing existing agreements. In this important sense, the role of the United States in the Arab-Israeli negotiations has become more important than it was before the Israeli elections.

As for what the administration *can* do, the focus must first and foremost be on the Palestinian-Israeli track. The physical entanglement of Israelis and Palestinians and the potentially explosive situation in the Palestinian territories make this track urgent. Certainly, Arafat and the Palestinian Authority have little choice but to proceed with the peace process, but it is doubtful

that they can control the opposition or the public in an environment of despair. In addition, for most Arabs the Palestinian issue remains the ultimate psychological benchmark to measure the prospects of broader peace in the region.

Syrian President Hafez Assad is no exception. Though Assad is no admirer of Arafat, his obsession with his own legacy means that he sees Arafat's fate to mirror his own. The Hebron agreements, despite their shortcomings, have been important, not only in stopping the backward movement in the peace process, but also in reviving in Palestinian minds the hope of a Palestinian state, even if its sovereignty would be limited. The trial balloons put out by Netanyahu's aids contemplating something close to a Palestinian state in the final settlement was almost as important as the agreements themselves. But if there is a lesson to be learned from the past three years, it is that diplo-

matic complacency, the celebration of every little agreement as if it makes peace a certainty, is a prescription for disaster. Nearly all the tough issues separating Israelis and Palestinians lie ahead.

On the Syrian-Israeli front, the gap may be too wide to achieve an agreement any time soon, but it is important to revive diplomatic momentum to prevent unintended escalation, especially in Lebanon, where Israel remains painfully entangled. Although Syria and Israel are two powerful states who will ultimately make their own deals, the diplomatic role of the United States remains indispensable in an environment of deep suspicion.

In the Persian Gulf, Washington faces serious challenges to its policy toward Iran and Iraq, largely because of the weakening international coalition on these issues. The policies will need immediate and thorough examination, but above all, the

Clinton administration will need to initiate a serious dialogue with the European allies, with Japan, and with the Gulf allies on a coherent policy toward Iran and Iraq and on securing the supply of oil in general. It is remarkable that despite the prevalent assumption that the Persian Gulf region today is a crucial one for the Western allies and that Gulf oil is one of their most important interests, there is no serious discussion between the United States and its allies on how best to address this interest. Initiating such a dialogue must be the number one priority in shaping U.S. policy in the Persian Gulf. ■

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BOSNIA

SUSAN WOODWARD

American-led multinational intervention to bring peace to Bosnia and Herzegovina was a resounding success in 1996. Although Bosnia is more divided now into three ethnically homogeneous ministates than it was a year ago, the war has stopped. Elections in September legitimated the parties of war, but the brutality of ethnic cleansing, the siege of Sarajevo, and the atrocities are gone from nightly television. NATO has regained its credibility, acquired a new lease on life, and committed a new deployment of 31,000 troops, called SFOR (for Stabilization Force), for another 18 months to *stabilize* the gains of its predecessor, IFOR. Quarrels within the alliance over lagging civilian implementation have subsided in a new commitment to improve coordination and attention to the tasks of building common political institutions and economic reconstruction.

Nevertheless, this success could all unravel. This will be the decisive year for Bosnia. The peace process has entered the difficult phase—the civilian tasks of peacebuilding and nation-building that can take place only after a separation of forces and cantonment of weapons succeeds. For the three warring (newly elected) parties, the General Framework Agreement for Peace (GFAP) signed at Dayton and Paris is only a cease-fire. They do not accept the accord as definitive politically, seeing it only as an insecure stepping-stone. Each is still fighting the war for statehood; only their means of securing territory and national survival have changed.

The international agenda for 1997 is being driven by the primary countries of asylum, above all Germany, who insist that Bosnian refugees now go home. Hundreds of thousands of refugees must be resettled, their right and that of displaced persons in Bosnia to return to their prewar homes assured, and the

municipal elections postponed last September held. But for the three Bosnian parties, where people live decides who wins elections and therefore who controls a territory—the issue that remains insecure in the agreement. The combination of refugee return, reversing ethnic cleansing, and elections is explosive, for the parties intend it to decide the real political fate of Bosnia.

COULD SUCCESS UNRAVEL?

Could the success of 1996 become failure in 1997? The year will be critical for U.S. foreign policy and its new makers. As civilian tasks take center stage, an American military unused to peacekeeping roles and vehement about remaining operationally autonomous will be put in an unfamiliar servicing role. Conflict between military and civilian authorities will be difficult to avoid when the military are asked to get more involved in tasks that could cause casualties. The constant dilemma of peace operations between diplomatic commitments made in the peace process and domestic commitments to voters to protect the troops—the ever present issue of *bodybags*—will rebound onto politicians, however. Will they fulfill their commitments to the parties made at Dayton and respond to demands from domestic constituents that justice be done, or will they protect the soldiers and risk growing disappointment with the troops and a new round of threats to NATO's credibility? The rhetoric—"what are 31,000 soldiers of the most sophisticated military machine in the world worth if they are not willing to arrest indicted war criminals, guarantee freedom of movement, or ensure the right of people to return to their prewar homes?"—cares little about the technicalities of mandates and the legalities of international intervention.

While ways around this conflict are being sought, such as a

special constabulary to arrest indictees, it will be hard to avoid the larger issue of 1997. The political contradictions in the Dayton accord will become an obstacle to further progress and force the United States to make difficult choices on the future of Bosnia which it would prefer to avoid. This will also revive disagreements with its European allies about political outcome and peace strategy at the same time as they are being told to assume full military responsibility for Bosnia after June 1998.

The conditions for facing these new tasks and conflicts will not be favorable. Governments seconded their best people for the first year of implementing the Dayton accord. Their contracts have run out, they will inevitably be replaced by a B-team, and a major transition in the Office of the High Representative responsible for coordinating all efforts will occur in March or April. The number of troops has been almost halved, and six-month rotations will be allowed. All these transitions in personnel will cause delays.

In addition, the region is far more unstable. President Tudjman of Croatia, one of the three signatories of the GFAP, has contracted inoperable stomach cancer. He has already moved toward a more intransigent nationalism with an eye, apparently, to his final legacy, while the right wing in his party has become more assertive in the succession struggle. The consequences for Bosnian Croat cooperation in their federation with Bosnian Muslims (Bosniacs) are not auspicious. In Serbia, mass demonstrations since mid-November have weakened seriously the government of the second GFAP signatory, President Slobodan Milosević. Milosević will be even more focused on his domestic troubles, and the instability could spread to the Kosovo region, where ethnic Albanians remain intent on independence. An important element of the opposition to Milosević, in addition, is sympathy for the Bosnian Serbs and their leaders in Pale.

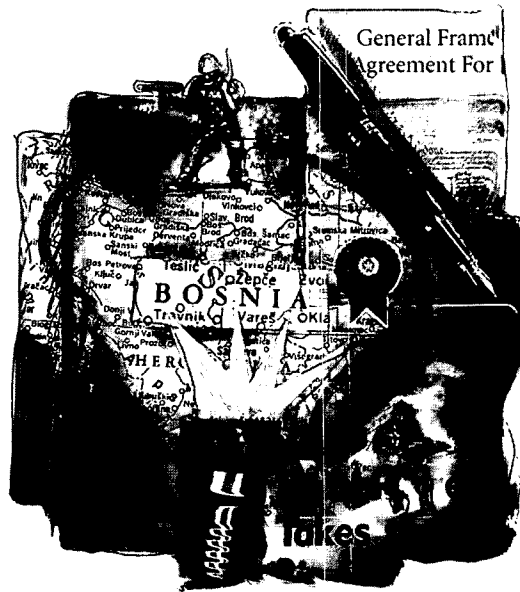
THE YEAR AHEAD

The flashpoints for U.S. foreign policy toward Bosnia in 1997 are many. In February, requests for supplemental funding for the SFOR deployment will provide an opening for critics in Congress, led by Representative Kasich (R-Ohio), who feel betrayed by President Clinton's initial promise to withdraw U.S. troops by last December. Directing their discontent at the new deployment, they will open a difficult discussion on the absence of an exit strategy from Bosnia and could impose conditions of total withdrawal earlier than the currently planned June of next year. In July, a NATO summit is scheduled in Madrid to address

three fundamental issues: enlargement, relations with Russia, and command and control arrangements for out-of-area deployments like Bosnia (the Combined Joint Task Force [CJTF] without U.S. participation). The last two NATO summits have nearly been hijacked by the Bosnian conflict. The intimate links between the Madrid agenda and Bosnia—participation of NATO aspirants in IFOR and SFOR, possible hand-over to a European CJTF after SFOR, and growing instability in NATO's southern flank—make it impossible to separate the two in 1997. And as the end of the year approaches and the North Atlantic Council and the Pentagon look to reduce their

deployment in Bosnia to a Deterrence Force (DFOR) one-third the size, the difficult political accounting of where Bosnia is going will have to be made.

Finally, in Bosnia itself, the flashpoints begin with decisions in February. The status of Brčko, a town in northeast Bosnia whose strategic location is so decisive for the fate of Bosnia that Dayton negotiators could not resolve it, was to be decided by international arbitration on February 15. Already delayed from December 15, American arbitrator Robert Owen chose to delay it again. Flooded with Serbs displaced by the transfer of Sarajevo suburbs from Serb to federal control and troops mobilized in



preparation for war, Brčko is a *casus belli* for Serbs. Without it, the two halves of their republic are separated, and hundreds of thousands of Serbs flee the western half. But President Izetbegović has also made Bosniac control of Brčko a test of American commitment to them. He triggered the new delay and Owen's decision to place the area under special administration for a year with an American head, by threatening to resign if it was not awarded to the federation. The intensified fight in 1997 for control over Brčko, with settlers, troops, voters, and returning refugees, will severely strain the much reduced SFOR troops in the area (in the American division). The first election of an election season, on April 13, will make this worse. Municipal elections in neighboring Croatia are expected to be the trigger for Serbs in the area currently under United Nations Transitional Administration for Eastern Slavonia to flood southward to Brčko before UN troops leave on July 15 and an exodus of displacement of Bosnian Croats and Muslims.

THE COMING REFUGEE CRISIS

This flood of refugees could inaugurate a long hot spring and summer. The German pressure to send more than 300,000 refugees home, let alone pressure on the more than 500,000 scattered elsewhere, has been resisted until now. Fewer returned

in 1996 than were newly displaced. German state governments burdened by the costs and political backlash cannot be resisted any longer. German troops are now participating in SFOR, in combat roles for the first time, overturning 50 years of post-Nazi restrictions, and in high positions in the SFOR command structure where national pressure can be applied. The Bosniac leadership will insist more emphatically on the right of displaced persons and especially returning refugees to return to the homes from which they were expelled—villages and towns where they are still not welcome. In Republika Srpska, particularly, Serbs fear losing control of territory if Muslims return in large numbers, but Bosnian Muslims are no more welcome in Croat-majority towns, despite their federation alliance.

In addition to pressing their demand for justice, the Sarajevo leadership will intensify the use of refugee and displaced person returns, as they began in summer 1996, as military operations aimed at retaking territory in strategic parts of the Serb Republic. The ultimate goal is to extend Bosniac control up to the northern and eastern borders of the country in place of Serbs. These military operations have already created enormous headaches for IFOR and will create more trouble for a smaller SFOR. At the same time, the military's insistence that conflicts over resettlement are an internal security matter—a task for local and international police that is not in IFOR/SFOR's mandate—provokes criticism while it does little to prevent them from being drawn in when local confrontations become armed hostilities in the zone of separation or between long-arm-bearing police. All three communities—Bosniacs, Croats, and Serbs—will resist the return to their local communities of people who are not their “own,” thereby delaying over and over by local crises the goal of building common institutions, multiethnic cooperation, and reintegration so that the international forces can depart. The idea of one Bosnia will be continually tested.

The political significance and explosive potential of refugee returns, however, will be magnified by the other event of the coming summer: municipal elections. Elections are the means by which the parties are now waging the war. Electoral victories for the three nationalist parties is their way to retain control over territory, consolidate control over the territory and people they were handed at Dayton, and for the Bosniac community to recapture (they would say “liberate”) territory from the Serbs. Municipal elections were postponed last September because of undue irregularities in the voting lists and challenges to the use of the registration form allowing Bosnians to vote where they intend to live. This form of personalized gerrymandering, a favorite of the Pale Serbs but used by all three parties, places a premium on choice of residence; its disavowal will not eliminate the efforts of Bosnian Croats to do literal gerrymandering of communities—redrawing municipal borders to create separate communities where Croats and Muslims are currently mixed. The nightmare for SFOR, however, lies in the regional context of these local elections: their possible conjunction with refugees expelled from northern Europe

about the time of Bosnian elections, between July and September, from a Croatia preparing also for presidential elections before September, and from a Serbia in the throes of political crisis and obliged to hold presidential elections before December. A major goal of the Dayton accord was to separate the fate of Bosnia from its neighbors—former republics of the disintegrating Yugoslavia and a Balkan peninsula still held at a distance by western European powers. Elections scheduled in 1997 in Croatia, Serbia, and Albania, joined by early elections in Bulgaria and growing militant activity in Kosovo, suggest that goal is fleeting, too.

Many other issues face the peace process in Bosnia during 1997. Under the “train and equip” program for a federation army, new weapons and ammunition are flowing into the country, with unknown consequences for the process of refugee return. Disagreements between the United States and some of its allies over U.S. commitment to the Bosniac leadership of Alija Izetbegović and continuing discrimination against Republika Srpska in economic, military, and political matters are coming to a head. On the grounds that a year of grace to the Sarajevo leadership was sufficient and that these policies are dividing Bosnia more, the allies now insist it is time to enforce the peace accord equally on all three parties. Pressure will increase all around to arrest indicted war criminals and do more to support The Hague tribunal now that national elections have been held.

ANOTHER MISSED OPPORTUNITY?

Failure to act on the lessons learned from the peace implementation process in 1996 and on the choices needed in 1997 would be another in a long series of tragic missed opportunities in Bosnia. This one could not be blamed on Europeans. Policy toward Bosnia and the Balkans has not changed since 1991, but events in Serbia, Croatia, and Bosnia, as elsewhere in the region, do not permit more of the same. A comprehensive strategy that includes all areas of the former country, their place in Europe, and greater coherence in the positions of the transatlantic allies will have to emerge if the crisis and an international presence are to end. As for Bosnia, the international rhetoric of cooperation but the reality of treating Bosnian parties as if they are hostile and reinforcing elements of their past hostility must also change toward a policy that is based on and reinforces realistic possibilities for cooperation.

Success in Bosnia in 1996 is not yet self-sustaining. U.S. foreign policy choices in Bosnia cannot be isolated from the major issues of national interest. Great power relations will be tested. The use of military power will be challenged. Relations with the Middle East may even be negatively affected if the Bosniac cause looks grim. And in all three aspects, President Clinton will have a lot of explaining to do to the American people. ■

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North Korea is a peculiar, very isolated society. It is still a communist state. It's a very elitist state, organized, in terms of loyalties, like a tribe. It is in terrible economic condition—acknowledged to be so, but even worse than publicly acknowledged. Its industrial policies have run into the ground. It has had a diminishing GDP for six years. It has suffered bad harvests and floods. However, it is surviving, and its survival techniques are reminiscent of a country at war. I don't know how long North Korean society can go on in such circumstances, but there is certainly a limit within the foreseeable future. North Korea also has a highly developed skill, or habit, of playing chicken very successfully. It runs very great risks, the greatest one being the Korean War. Time and again it has tried to use opportunities to push people up to the brink, and it's very important to keep this tactic in mind.

KOREA

WILLIAM GLEYSTEN

The Korean peninsula was a flashpoint even before the Korean War. The nature of the danger, however, has changed a great deal. Up until around 10 years ago the real danger in North Korea was its military strength, which its society had sacrificed so much to build up. North Korea had powerful allies—the Soviet Union and China—that didn't really approve of its risk taking, but nevertheless provided some comfort. The North posed a massive threat to South Korea. Seoul was only a few miles from the demilitarized zone. The danger of the South being overrun very quickly was very great. In the last 20 years or so, however, the military balance between North Korea and South Korea has gradually been reversed. The combination of South Korean and American forces there today is clearly superior to those of North Korea. But the new danger militarily is that a society that is cornered can perhaps be even more irrational and more dangerous than one that enjoys superiority. This is the situation we face. This is why it is a flashpoint.

Now how do we deal with this? Both South Korea and the United States have a common interest in the security, stability, and prosperity of Korea and the region around it. The most immediately important thing is that nothing be done to undermine the military strength that South Korea enjoys today.

Looking ahead to the period of possible reunification of the two Koreas, some adjustments at least in the composition of U.S. forces in Korea may be possible and sensible, but any significant

change in those forces today would be dangerous, particularly in view of North Korea's nuclear developments. We must also do everything we can to avoid the total collapse of the North. If that regime collapses, the resulting chaos will impose an enormous economic burden on South Korea. There would also be a military problem if South Korea tried to fill the vacuum, moving forces near its Chinese border and making China uncomfortable. And in political terms it would create a great many problems. To put it brutally, the United States and South Korea would benefit far more from this society lingering on and gradually moderating. We may not have this choice, and we must, of course, prepare for the contingency of collapse.

In my opinion, the first Clinton administration started off on the wrong foot and got itself into a crisis in part of its own making over the nuclear issue. Toward the end it reached the best compromise that could be devised—namely, the framework

agreement, which was an unabashed bargain with North Korea to have them stall their nuclear military activities in return for two light-water reactors provided by the United States and South Korea. That is the right approach for the long run—measures that engage North Korea in the outer world, that bring home the priorities of resource allocation and rub in the cost of past policies, that buy time for the adjustment necessary between the two confronting societies, north and south. Despite a great deal of discomfort in this country over the framework agreement, it has been generally accepted

by both parties in Congress and by the American people.

But in South Korea, the issue is much more difficult. It is complicated by the domestic politics of South Korea, by the line of demarcation so close to Seoul, and by provocative North Korean behavior, such as the grounding of the spy submarine off the coast of South Korea last September. It is extremely hard for a South Korean politician to say, "Yeah, we should take a tough line toward North Korea, but we must also build the light-water reactors and encourage inter-Korean trade and investment. We should keep that offer out there all the time." In fact, though it is hard to get this point across to South Korea, it is good for them, and for other powers, to deal with North Korea, to try pushing it open. The tension between Washington and Seoul over this issue is real but manageable. South Korea is concerned that the United States will make some important sacrifice in its relations with South Korea to try to ease relations with North Korea. But while we should proceed in easing relations with the North, we should never do so at the expense of a South Korean relationship that is far more important to us. There is a tension, but it need not be a conflict. I think we can manage it, and I believe that the Clinton administration in the past few months has managed it quite well. ■

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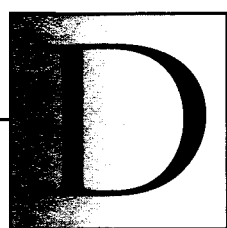
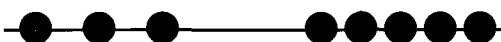
Is There a Monetary Union in Asia's Future?

MONETARY

ARRANGEMENTS

BARRY EICHENGREEN

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during 1995–96 the yen-dollar exchange rate endured a cycle of violent fluctuation. From 100 yen at the beginning of 1995 the dollar fell to 80 yen in April. At that point worried central bankers in Japan, the United States, and Europe intervened and halted the dollar's decline. The U.S. currency then trended sharply upward, most recently breaching the 120-yen barrier in late January. Concern for the strength of the yen was replaced by worries about its weakness: alarm grew that an undervalued yen would fan conflict over the U.S.–Japan current account balance and make life difficult for Japanese firms that import components from East Asian suppliers.

There is no question that this cycle created problems for both the Japanese and U.S. economies. It discouraged international trade by forcing firms to hedge exchange risk by purchasing "cover" in the forward market. And it created special difficulties for a Japan seeking to restructure and streamline a depressed economy. An exchange rate of ¥80 intensified the pressure on Japanese exporters of manufactures. The problems experienced by the tradables sector deepened the distress of financial institutions holding claims on manufacturing firms. The economy's deflationary crisis was thus compounded by the yen's appreciation in 1995. And while depreciation in 1996 relieved the domestic profit squeeze, the yen's volatility complicated investment planning. Japanese producers may be discouraged from developing sustainable outsourcing strategies and shifting production to other parts of East Asia. The sudden improvement in competitiveness may distract producers and policymakers from the search for a permanent solution to the structural problems of the Japanese economy.

Looking for a Quick Fix

The 1995–96 yen-dollar dustup elicited the predictable demands for international monetary reform. If the major industrialized countries that make up the Group of 7 could only agree to establish a new system of pegged-but-adjustable currencies or exchange rate target zones, observers argued, these painful exchange rate fluctuations could be avoided. And if the seven could not reach agreement as a group, then the countries whose currencies were being affected should establish a bilateral target zone. Thus, we have heard repeated calls for the establishment of a target zone for the yen-dollar rate or a common basket peg, surrounded by fluctuation bands of plus-and-minus 10 percent, for nine East Asian currencies (those of China, Hong Kong, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand).

The matter, unfortunately, is not so simple. Stabilizing exchange rates by establishing a new system of pegs, bands, or target zones would require significant compromises of domestic policy autonomy. Intervention by central banks is effective only if it sends credible signals of future shifts in monetary and fiscal policies—that is, when there is no

conflict between domestic and international economic policies.

But in today's world, conflicts between domestic and international economic objectives are inevitable. The removal of controls on international capital movements and the development of modern information-processing technologies over the past several decades permit billions of dollars to be traded across borders at the stroke of a key. The domestic policy independence that capital controls once afforded national monetary and fiscal authorities has become a thing of the past. Currency traders, no longer limited by controls, are free to attack an exchange rate as soon as they begin to

suspect that the government is less than totally committed to defending it—a practice that can greatly increase the cost of defending the currency peg. With the end of the Cold War and the disintegration of dominant political coalitions in countries like Italy and Japan, governments are necessarily fragile and hesitant to put the domestic economy through the wringer to defend the exchange rate at any cost. Weak governments find it infeasible to pursue the international economic policies needed to maintain a durable currency peg.

Thus schemes to peg the dollar, the yen, and the deutsche mark against one another, as had been the practice until the Bretton Woods international monetary system collapsed in the early 1970s, will prove unavailing. Exchange rates between these currencies will continue to float against each other.

Small Countries, Big Problem

For the United States and Japan, large countries that remain relatively closed to international transactions, this arrangement, while painful, is bearable. For small open economies, where a larger share of production is typically sold on international markets, the dislocations caused by exchange rate swings can be excruciating. Because the financial sector is small relative to global financial markets, a shift in market sentiment or in interest rates in the United States can elicit a flood of capital inflows that leads to a dramatic real appreciation or massive outflows that cause the exchange rate to depreciate alarmingly.

Whether these small open economies are in Europe, Latin America, or East Asia, they find it exceedingly difficult to live with exchange rate fluctuations. They are thus

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prepared to take drastic steps to limit exchange rate volatility. In some cases they have done so by replacing their central banks with currency boards. This approach has been used by countries with exceptional problems with inflation and financial stability, such as Argentina and Estonia. A parliamentary statute or constitutional amendment requires the board to tie the domestic currency to that of a major trading partner. Argentina's currency board can issue a dollar's worth of currency only when acquiring a dollar of reserves, effectively pegging the peso-dollar exchange rate at one to one. Currency traders do not question the monetary authorities' commitment to the currency peg, since the latter are required by law to defend it. But a currency board leaves the monetary authority little leeway to act as a lender of last resort in the event of problems in the banking system. And once the inflationary crisis has passed, countries find it hard to eliminate their currency board and reacquire monetary flexibility without exciting fears of a return to the bad old days. A person with an overeating disorder may be inclined to padlock the refrigerator and throw away the key, but he may regret the extremity of the step once starvation sets in.

Another solution to the problem of exchange rate instability is a monetary union, like that the members of the European Union are currently seeking to establish. Monetary unification banishes exchange rate volatility by abolishing the exchange rate. But it requires the participants to share responsibility for their common monetary policy. Conveniently for the small open economies of Europe, the larger partner they wish to join in monetary union, Germany, may be prepared to compromise its monetary autonomy in return for reacquiring a foreign policy role in the context of a European Union foreign policy.

A Single Asian Currency?

The question for the 21st century is whether analogous monetary blocs will form in East Asia (and, for that matter, in the Western Hemisphere). With the dollar, the yen, and the single European currency floating against one another, other small open economies will be tempted to link up to one of the three. But the linkage will be possible only if accompanied by radical changes in institutional arrangements like those contemplated by the European Union. The spread of capital mobility and political democratization will make it prohibitively difficult to peg exchange rates unilaterally. Pegging will require international cooperation, and effective cooperation will require measures akin to monetary unification.

The day when the countries of East Asia including Japan will be prepared to create a single Asian currency (or, for that matter, when the countries of the Western Hemisphere are prepared to join the United States in a monetary union) remains far away. The political preconditions for monetary unification are not in place. Operating a monetary union requires some pooling of political responsibility. History provides very different prospects for

this in Western Europe and East Asia. Proponents of European integration can trace their antecedents back for hundreds of years. Jeremy Bentham advocated a European assembly, Jean-Jacques Rousseau a European federation, Henri Saint-Simon a European monarch and parliament. By the middle of the 19th century, intellectuals like Victor Hugo could speak of a United States of Europe. In the 1920s, the Pan-European Union lobbied for a European federation and attracted the support of Aristide Briand and Edouard Herriot, future premiers of France. Konrad Adenauer and Georges Pompidou, two leaders of the postwar process of European integration, were members of the Pan-European Union. The ideal of European integration is intimately connected with the liberal and democratic principles of the European Enlightenment and has roots in centuries of European history.

East Asia, in contrast, lacks a comparable tradition of political solidarity. It lacks a Jean Monet or Paul Henri Spaak to speak for regional integration. In part this reflects the ideological distance between China's communist government and market-oriented regimes elsewhere in East Asia. By contrast, in postwar Western Europe, variants of the social market economy were embraced by virtually all the members of the present-day European Union.

At a deeper level, East Asia lacks a Benthamite-Rousseauian-Saint Simonian heritage of collective democratic governance through integration. As Peter Katzenstein puts it, "the notion of unified sovereignty . . . central to the conception of continental European states, does not capture Asian political realities." Not only in China do the regions resist the attempts of the center to exercise its political will through the operation of political and legal institutions. The idea of a centralized state with a monopoly of force that regiments its citizens through the superimposition of a common set of institutions is a European conception, not an Asian one. Asian civil society is structured by ritual, ceremony, and economic networks as much as by force and law.

Consequently, integrationist initiatives in Asia have proceeded not through the creation of strong supranational institutions but by establishing loose networks of cooperation. It is revealing that the Asia Pacific Economic Cooperation forum, which is essentially just a consultative body, has succeeded where initiatives to create smaller, more cohesive Asian analogues to the European Economic Community or the European Free Trade Association have not.

Gazing far into the 21st century, one can imagine the development of a single Asian currency analogous to the Euro, the prospective single European currency. In a world of open international capital markets and politicized domestic policy settings, that will be the only alternative to floating exchange rates. As the economies of East Asia grow still more open and interdependent, pressure will build to work toward this goal. But as yet the political preconditions are not in place. An Asian monetary union is at best a very distant prospect. ■

When President Clinton took office in 1993, his administration appeared determined to focus single-mindedly on the nation's economic problems. International issues were to receive less attention, except inasmuch as they might affect American commerce. The Clinton-Gore ticket had campaigned on the notion that the United States was suffering its "worst economic performance since the Great Depression," and that conditions might get worse if we continued to receive "plenty of empty promises," instead of "results," from our trading partners. According to the Clinton paradigm, with the Cold War safely over, the time had come to shift priorities. "The days when we could afford to subordinate our economic interests to foreign policy or defense concerns are long past," explained Mickey Kantor, then the U.S. trade representative.

COMMERCIALIZING FOREIGN POLICY? AMERICAN TRADE POLICY. THEN AND NOW

In the ensuing years, however, the global school of hard knocks did not easily permit narrow commercial considerations to crowd out broader concerns in foreign affairs. So, by 1996, questions of international stability and security had regained more of their traditional claim on U.S. policy, even for a president preoccupied with domestic matters.

The correction is welcome. Commercial boosterism in the early days of the Clinton presidency seemed premised in part on the false impression that previous presidents and Congresses had traded away American prosperity in deference to geostrategic interests. Had this misperception persisted, it might have risked a serious intensification of trade tensions with many countries and presented the strange spectacle of U.S. trade negotiators demanding the equivalent of an affirmative action program to compensate for mythical economic losses during the Cold War. Statecraft in today's still perilous world requires a proper balance between trade policy and other missions.

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ILLUSTRATION BY VINT LAWRENCE

THE MYTH OF COMMERCIAL MARTYRDOM

In the immediate aftermath of World War II, the U.S. government adopted a relatively openhanded approach toward allies and former adversaries alike, offering grants, technical aid, and credits under the Marshall Plan. The altruism, however, reflected unique and temporary circumstances. Shell-shocked economies overseas had barely begun to recover. As an undisputed economic hegemon, the United States could readily afford to be generous without the quid pro quo of prompt repayment. So dominant was the U.S. economy that there was not much difference between doing favors to others and for oneself. Incentives to underwrite economic growth abroad were strong at a time when the preponderant gains ultimately redounded to the United States.

But even then, the Americans did not as a matter of course go around lowering U.S. tariffs unilaterally. Tariffs were reduced, but on a two-way basis. Presidents did not have much choice; they were explicitly required, under the Reciprocal Trade Agreements Act of 1934, to negotiate reciprocal concessions. Congress often made the U.S. commitment to free trade conditional on the protection of powerful constituencies. In exchange for renewing presidential authority to negotiate tariff cuts, lawmakers required President Truman to heed a so-called peril-point provision limiting cuts to levels that would not impair sensitive domestic producers. The executive's trade negotiating authority was extended through the 1950s, but President Eisenhower had to order limits on imports of cotton fibers and crude

oil. On his watch, despite an increasingly favorable trade balance in the farm sector, Congress secured quantitative limits on imports of sugar and dairy products. The legislators also insisted on waiving obligations to remove these limits and to discipline U.S. crop production programs under the GATT. Eisenhower had limited success in overturning stringent Buy American procurement rules that had been (and remain) in effect since 1933.

Subsequently, to ensure passage of the Trade Expansion Act of 1962, which authorized another round of international trade negotiations, President Kennedy widened the use of import quotas on cottons. Lyndon Johnson, in turn, agreed to restrain an influx of Japanese steel and was unable to lift quotas on imports of beef.

Not all these safeguards for domestic interests signified grave departures from the generally liberal world economic order the United States was promoting. But neither were they trivial. "Short-term" restraints on imported cottons eventually grew into the Multifiber Arrangement—an enduring apparatus for regulating global commerce in almost all textiles and apparel. The GATT waiver for agriculture, ordained by Congress in 1955, would long complicate international efforts to curb disruptive farm subsidies and trade restraints worldwide.

And as the East-West conflict continued, each new administration became, if anything, more aggressive in its defense of domestic industries. Using language remarkably similar to Kantor's, President Nixon's advisers had concluded that "In the past, economic interests were sacrificed when they came into conflict with diplomatic interests." Accordingly, in the early 1970s

Nixon took action: he levied an across-the-board surcharge on imports, abandoned unilaterally the Bretton Woods monetary system, and signed the massive 1974 trade act that enshrined protectionist penalties against underpriced (“dumped”) imports.

Later came the trade activism of Ronald Reagan. While Reagan expressed confidence in the ability of markets to take care of themselves—and while he was urging the free world to close ranks against The Evil Empire—he also promised to defend “unceasingly” U.S. firms and workers that were “victims” of unfair trading practices. Thus, Reagan presided over a profusion of U.S. trade restrictions, including new quotas on European steel and Japanese automobiles, as well as controls on imported machine tools, lumber, and computer memory devices. By 1988, some form of trade sanction covered almost a quarter of the \$550 billion a year the United States spent on imported goods.

The point is not that postwar American economic leadership was hypocritical, preaching open trade while practicing protectionism. From Bretton Woods to Punta del Este, no other country’s leaders ordinarily championed with greater conviction the idea that collective well-being and security would be enhanced by lowering barriers to commerce and investment among nations. But much political rhetoric, uttered primarily by Democratic congressmen and presidential candidates during the 1980s and early 1990s, seemed fastened on a fiction: that American international economic policy during the Cold War had been faintly naive, selflessly passing handouts to the rest of the world, forsaking domestic groups, and getting little in return.

In reality, long before the Berlin Wall came down, this country, like any other, had minded its national economic stakes, often tenaciously. When they served U.S. purposes—reinforcing the anticommunist fire wall, but also improving the balance of payments, diverting imports to other markets, or enabling other economies to become potential customers for U.S. exports—Washington advanced multilateral tariff reductions. When the flow of freer trade was deemed injurious or unjust to native industries, they were often sheltered. And when emerging global institutions threatened to encroach on sovereign economic rights, such as U.S. antidumping laws or farm price supports, exemptions were arranged. This pattern of give-and-take, moreover, was evident almost from the start, not just after the Cold War had ended.

THE CLINTON TRADE POLICY

At first, this did not appear to be how the Clinton administration understood past precedents. Its view seemed to be that policymakers had to make up a lot of lost ground. Thus, some of the administration’s early pronouncements were jarring. Shortly after Clinton’s inauguration, for instance, he surprised the European Union by seeming to suggest that a bilateral agreement on commercial aircraft subsidies, concluded by President Bush only a year before, ought to be scratched and redrawn. Then, at a press conference that spring, the president suddenly expressed astonishment that the previous administration had declined to order a tenfold increase in duties

on imported minivans, a decision he called “a \$300 million-a-year freebie to the Japanese.”

For a while, the administration seemed to be on a collision course with Japan. Clinton’s trade strategists lost little time pressing the Japanese government to negotiate more consignments of automobiles, auto parts, supercomputers, medical equipment, and insurance services—and to measure “tangible progress” in each of the sectors with “objective criteria.” The Japanese side interpreted these terms to be coded demands for specific sales figures or designated market shares, not unlike the quantitative trajectory for sales of semiconductors negotiated some years earlier by the Reagan administration. The squabble over automobiles and auto parts escalated to the brink before an accommodation was finally reached in June 1995, only hours before the United States planned to impose punitive tariffs.

Nevertheless, at least judged by its deeds rather than its words, the new regime gradually settled into a less confrontational style. The trial balloon proposing to revise the European Airbus pact was rather quickly lowered. Virtually all the trade cases that the administration inherited in 1993 were eventually dispatched without trashing existing agreements or resorting to reprisals. Quarrels with the Europeans over public procurement practices for telecommunication equipment and with Canada about imports of beer were resolved uneventfully. During the presidential campaign, Clinton had criticized George Bush for extending most-favored-nation trade status to China in light of human rights violations. But China’s MFN status remained intact and virtually certain to stay that way.

The intensity of trade wrangling with Japan also subsided. Though some new frictions would still loom (regarding aviation rules, for instance, and Kodak’s dispute with Fuji), a number of old thorns were no longer high profile. Interim settlements were reached on the long-festering matter of American participation in Japanese public works contracts and on penetration of the Japanese market by vendors of products ranging from apples to insurance. By the time of the Tokyo summit in April 1996, Japan’s bilateral trade surplus had declined, U.S. auto exports were up, and Clinton instead chose to solidify security arrangements amid mutual worries about bigger dangers in Asia.

The first Democratic administration in a dozen years resisted the protectionist proclivities of a bedrock constituency, organized labor. The litmus test was the North American Free Trade Agreement. Although Clinton had lent only lukewarm support to the prospective treaty during the campaign, he strove energetically for ratification in the last decisive stages of the debate. Likewise, the president chalked up another major achievement when Congress approved the broad trade liberalization of the Uruguay Round. Congressional consent for this sweeping accord was needlessly delayed by the administration’s attempt to request authorization for a follow-on agenda, replete with fast-track procedures, to take up divisive questions of workers’ rights and environmental standards. Nonetheless, with a strong tug from the White House and the usual flurry of last-minute bargaining, legislation implementing the Uruguay Round collected substantial bipartisan support and finally cleared Congress at the

Virtually all the trade cases that the administration inherited in 1993 were eventually dispatched without trashing existing agreements or resorting to reprisals.

end of 1994. Building credibility, Clinton's success here and on NAFTA were to pave the way for subsequent multilateral deals, including a recent agreement to liberalize trade in telecommunications services.

REALITY CHECK

Trade policy by the mid-1990s had become not only less contentious, but also less preeminent in U.S. foreign relations. The adjustment was compelled by both good news and bad. The good news was that the economy of the United States was actually in fine shape, indeed better shape than any other in the industrial world. Asserting that U.S. businesses were globally uncompetitive, and blaming economic woes on the vicissitudes of trade, was now decidedly unconvincing (as Pat Buchanan and Ross Perot discovered during the 1996 presidential campaign). So the need for vigorous government programs of commercial promotion, making up for earlier supposed self-denials, had become more dubious than ever.

The bad news was that the post-Cold War world was not benign. Its harsh realities featured plenty of rogue states orchestrating international terrorism, trafficking freely in horrific weaponry, and sending waves of refugees streaming across borders. Local bullies were marauding not only in the Middle East and Africa, but with impunity on the doorstep of Europe. Surely, few, if any, of these threats could be considered primarily economic in any meaningful sense of the term. They called for the leader of the only superpower to be more than a "glorified secretary of commerce," as John Judis of *The New Republic* put it.

In the Clinton administration's first months, there had been no mistaking its revisionist outlook. The Clintonites came to town convinced that huge parts of the American economy needed radical surgery, and that while this operation was going on, many international ills could be marginalized. Now and then pesky external events—such as a late-20th-century reprise of ethnic cleansing and national dismemberment in Europe's backyard—interrupted the administration's deliberations on domestic policy. The flashpoints abroad elicited from Washington much vacillation and infrequently a sustained, credible response. There were exceptions. In the Middle East, the administration persevered with the Arab-Israeli peace process and remained prepared to meet Saddam Hussein's provocations. But in a series of other trouble spots—Somalia, Bosnia, North Korea, and, for a time, Haiti—foreign policy wobbled.

By the middle of the decade, however, there were signs of a change. In the fall of 1994, a rapid deployment of U.S. forces had been ordered to the Persian Gulf to reinforce Kuwaiti defenses against Iraq. Over the next couple of years, American

power would be put on display in more places, as renewed importance was attached to stabilizing a wider assortment of corrosive foreign conflicts. By the spring of 1996, a U.S. division had begun to police a U.S.-brokered armistice in the Balkans. The Seventh Fleet steamed into the South China Sea when Chinese military exercises in the Formosa Strait menaced Taiwan. In the face of China's rising power in Asia, hints of a Sino-Russian detente, and a dangerously unstable regime in Pyongyang, mutual defense precautions dominated the 1996 U.S.-Japan summit. And when hostilities repeatedly threatened to boil out of control along Israel's border with Lebanon and on the West Bank, concerted U.S. diplomatic pressure helped put a shaky lid back on.

A QUESTION OF BALANCE

After an unsteady start in Clinton's first term, U.S. foreign policy has regained more of its customary equilibrium, recognizing that a fixation with commercial competition between nations runs the risk of being blindsided by other international challenges. Ancient problems, such as violence born of religious fanaticism and virulent ethnocentric nationalism, resurfaced with the passing of the Cold War. So have new and profoundly disturbing uncertainties such as the spread of material and technology for nuclear, chemical, and biological weapons. Most of the threats to global stability today have less to do with the intricacies of "geo-economics" than with a primal fact of international politics, namely, states and peoples intimidating one another by force of arms.

Commercial goals have always had a prominent place on America's international agenda. They always will, and often should. But cluttering foreign policy with too many trade tiffs and business calculations can expend a great deal of diplomatic capital, often in return for disappointingly marginal material gains to the United States. Even if the perennial U.S. trade deficit is a troublesome predicament (a big "if"), going to the mat to get rid of it might, in Paul R. Krugman's estimate, lift the share of manufacturing employment in the U.S. economy from 17 percent to 17.5 percent. Knocking down all of Japan's known barriers to imports seems long overdue and is plainly in that country's own best interest, but even under utopian conditions (with no offsetting exchange rate effects and no displacement of productive resources), the Herculean feat would at best boost U.S. exports by a grand total of one-fifth of 1 percent of GDP.

Prizes of that magnitude may still be worth pursuing doggedly, but not at the cost of neglecting a larger strategic architecture, painstakingly built over half a century, to protect us and others from the world's ever-present thugs and tyrants. ■

JOHN J. DI IULIO, JR.

REINVENTING PAROLE and PROBATION

No one—at least no one in elite policy-wonk circles—is a bigger fan of incarcerating known, adjudicated adult and juvenile criminals than I am. No one has written more over the years about the cost-effectiveness of incarceration as measured both in terms of its crime-reduction value and in terms of doing justice. Still, when it comes to the search for rational, workable crime policies, it's time to admit that the brain-dead law-and-order right is no better than the soft-in-the-head anti-incarceration left. More and more conservatives now favor abolishing parole, sharply curtailing probation, imprisoning every adult felon for his or her entire term, and warehousing juvenile offenders in adult jails. The prudent response, however, is not to abolish probation and parole, but to reinvent them.

First, let's get crystal clear on the grim facts about crime, prisons, probation, and parole. Be giddy about recent drops in national crime rates if you wish, but each year Americans still suffer some 40 million criminal victimizations; about a quarter of these are violent crimes. Only about 1 in 100 crimes actually results in anyone getting caught, convicted, and sen-

A LOCK-'EM-UP HARD-LINER MAKES THE CASE FOR PROBATION

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tenced to prison. Most felony defendants are repeat offenders; yet most felony defendants are sentenced not to prison but to probation.

Likewise, a half-dozen studies prove beyond a reasonable doubt what every veteran policeman knows: most prisoners are *not* petty, nonviolent thieves or mere first-time, low-level drug offenders. Yet most of these hardened criminals are still paroled well before they have served out their latest sentence behind bars. On any given day in America, there are three convicted adult criminals out on probation or parole for every one in prison—and many of these are indistinguishable (in terms of their violent and repeat criminal histories) from those who remain in prison. As for juvenile offenders, between 1989 and 1993 the number of adjudicated juvenile cases that resulted in probation rose by 17 percent. The number of probation cases involving a “person of offense”—such as homicide, rape, robbery, or assault—soared by 45 percent.

Literally dozens of careful studies document that probation and parole are, to put it mildly, failing to protect the public. Nearly half of all state prisoners in 1991 had committed their latest crimes while out on probation or parole. While formally “under supervision” in the community, their “violations” included more than 13,000 murders, some 39,000 robberies, and tens of thousands of other crimes. More than a quarter of all felons charged with gun crimes in 1992 were out on probation and parole. Here, too, what’s true for the revolving-door adult system is even more true for the no-fault juvenile system. In many cities, for example, most cases involving violent older teen thugs who get referred to adult court result in probation. Kids plea bargain too.

GETTING WHAT WE PAY FOR

Why are the adult and juvenile probation systems so poor, and what, realistically, can be done to improve them—soon?

A big part of the answer is that we spend next to nothing on the systems, and get about what we pay for. Take adult probation. Joan R. Petersilia, former director of RAND’s criminal-justice research program, has calculated that we currently spend about \$200 per probationer for supervision. “It is no wonder,” she notes, “that recidivism rates are so high.” Likewise, Patrick A. Langan, a statistician with the U.S. Justice Department, has found that more than 90 percent of probationers are supposed to get substance abuse counseling, pay victim restitution, or meet other requirements. But about half do not comply with the terms of their probation. Probation sanctions, he concludes, “are not rigorously enforced.”

But how could they be properly supervised by overworked, underpaid probation officers with scores of cases to manage? As Petersilia argues, even probationers who are categorized as high-risk offenders receive little direct, face-to-face oversight. If “probationers are growing in number and are increasingly more serious offenders,” she advises, “then they are in need of more supervision, not less. But less is exactly what they have been getting over the past decade.”

Ditto for juvenile probation. Over half of street-level juvenile probation officers earn less than \$30,000 a year. In big cities, the probation caseload of serious and violent juvenile cases has increased rapidly. In a national survey, probation officers admitted that their average urban caseloads were at least 25 percent higher than they should be.



ILLUSTRATION BY BRU ASSOCIATES

To reinvent probation, we will need to reinvest in it. More money, more agents, and closer supervision are just the first phase. Equally important is the type of creative and critical thinking represented by Boston's probation chief Ronald P. Corbett. Among other innovations, Corbett has teamed local probation officers with local police officers. Patrolling the streets together, they have cut crime. Corbett has also got probation officers to work with inner-city clergy on a wide range of crime control and prevention initiatives.

In Philadelphia, the district attorney's office has developed a no-nonsense program in which volunteers from the neighborhoods where the juveniles committed their crimes hear the cases, set terms, and monitor compliance. Run for the district attorney's office by veteran probation officer Mike Cleary, the citywide program boasts an 80 percent success rate, costs little to administer, and holds kids (including hundreds of juvenile felony offenders) accountable.

"The value of Philly's program," observes former New Jersey Superior Court Judge Daniel R. Coburn, "is that it separates the minnows from the sharks, then holds the minnows accountable and hence less likely to become sharks, let alone become the predatory Great Whites we must incarcerate." He should know. Coburn pioneered two major and highly successful programs in New Jersey. One is the state's Enforcement Court, which goes after people who remain on probation because they failed to pay fines and restitution, collects the money, restores the trust of crime victims, and brings literally millions of dollars into state coffers that can be used to beef up other justice programs. The other is the Sheriffs Labor Assistance Program (SLAP), which puts low-level criminals to work cleaning up parks, painting public buildings, helping out in nursing homes, and more. "Fail to do exactly what you're required to do on SLAP," Coburn declares, "and you get slam—as in, see you in jail for sure."

HOPE FOR PAROLE TOO?

Admittedly, parole is a tougher reinvention nut to crack. In the late 1980s, I myself had expressed hopes that intensive-supervision parole programs could protect the public and its purse. But the best studies of intensive-su-



WE ARE NOT GOING TO PUT EVERY CONVICTED FELON BEHIND BARS AND KEEP HIM OR HER THERE—NOR SHOULD WE.

pervision programs for high-risk parolees soon found that the programs cut neither recidivism nor costs. So for the last several years I have argued in favor of some types of "three strikes and you're out" laws. And I continue to strongly favor a no-parole policy for some categories of violent and chronic criminals.

But the most interesting parole-reinvention idea I've encountered to date comes from Martin Horn, formerly head of New York State's parole authority and now commissioner of prisons in Pennsylvania. As Horn argues, in most cases there is relatively little that parole agents can do to keep an offender who is determined to commit new crimes from committing them. The flip side is that parolees who

want to go straight often can make it if they are literate, civil, and can stay off drugs, remain sober, and get a job.

But parole agents often waste time chasing the bad guys rather than helping the good. And in many states, the laws perversely limit a parole agent's discretion. For example, I've heard many agents complain of having to revoke the parole of guys who failed a drug test but who were not, in the agent's best judgment, doing anything more than getting high. As one agent confided, "A parolee of mine is ok and is looking for a job. He pees in a bottle and comes up dirty, and I have to send him back inside. But a real predator I know is using, selling, and almost certainly doing other crimes. He stays on the streets unless I catch him red-handed—and I won't. It's insane."

Horn's radical notion is to reinvent parole on the basis of a "personal responsibility" model. A released prisoner would be given the equivalent of a parole services voucher. For a fixed period of time—say, two years—he can use the voucher to seek education, job training, drug treatment, or other services from state-selected providers. If he wants to help himself, he can. If not, he's on his own. Do a new crime during this period—bite the hand that is offering you a way to help yourself—and you do the time for the crime, plus a year or two.

It's time to get behind serious efforts to reinvent probation and parole, and time to debate fresh ideas. After all, we are not going to put every convicted adult and juvenile felon behind bars and keep him or her there—nor should we. ■

THE POLITICS OF IMMACULATE CONCEPTION

CONGRESS SHOULD SET THE BUDGET, NOT THE CPI

BARRY P. BOSWORTH

Last December the Advisory Commission to Study the Consumer Price Index issued a report arguing that the CPI has been overstating inflation for the past few decades—by 1.1 percent in recent years. The commission recommended that the overstatement be corrected forthwith.

Years of neglect and underfunding have seriously eroded the quality of the U.S. statistical system, and the commission's attention to the adequacy of the CPI as a measure of inflation is welcome. But the accuracy of national statistics was not the only issue Congress had in mind when it appointed the commission. Adjusting the CPI in accord with the commission's recommendation would have major effects on taxes, federal benefits, and the goal of future budget balance.

The commission's conclusion that the CPI overstates inflation was not surprising. It is consistent with earlier research on the price indexes, and few analysts would disagree. But there is less empirical basis for the commission's estimate of the magnitude of the bias. While the estimate is consistent with a number of recent survey articles, it is important to understand that all the reports are extrapolating from a common small set of empirical studies, none of which was intended to provide an unbiased assessment. The empirical studies, most arising from research conducted at the Bureau of Labor Statistics, focused on specific problems with the CPI—and, naturally, on those areas of the CPI where the effect would be largest. At this

time, we do not know the extent to which the results of studies of those narrow areas can be generalized to other parts of the index.

The issue of bias in the CPI involves both technical aspects of constructing an index and measures of quality change. The technical issues are straightforward, and the commission estimates their impact on the rate of change in the CPI at

0.5 percent per year. The commission has highlighted some basic problems and provided specific suggestions that would help resolve them. Congress should provide the funding to update the index, and the BLS should move in the direction proposed by the commission. The result would be a better index.

The problems with the commission's recommendations arise in connection with the issue of quality change, the remaining 0.6 percentage point of overstatement. In the first place, the commission's report fails to reflect fully the extent to which the current CPI already adjusts for quality change. Of course the quality of some goods and services has improved. But that is not the point. The real question is whether the quality improvements have been more than are embodied in the current procedures. For, though few people outside the BLS seem to know it, the index already reflects a large amount of quality gain. In 1995 the total price increase in a subsample of the CPI, covering about 70 percent of the total, amounted to 4.7 percent. But the BLS determined that 2.6 percentage points, or slightly over half the increase, represented improvements in quality. That is,

quality improvements offset about half of the gross price increase, yielding an estimated 2.2 percent inflation rate.

The CPI commission is arguing that the quality adjustment should have been 0.6 percentage points larger, 3.2 percent rather than 2.6 percent.

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They could be correct, but on the basis of existing evidence, we don't know that. I don't see how anyone can be that precise. Indeed, one disappointing feature of the commission's report is that it offers no new procedures to improve the estimate of quality change; it simply asserts that it is larger than estimated by the BLS.

Much of the dispute arises out of different views of how producers go about introducing price and quality changes. If most quality changes are small and incremental in nature, current BLS techniques may overlook them and end up misstating the price change. But if price and quality changes are tied closely together in the introduction of new models, the BLS methodology may overestimate quality improvements and understate inflation, a possibility ignored by the commission. In most cases, major changes in a product's characteristics will result in its being dropped from the index, implicitly attributing most of any price change to quality. Thus, price increases that are imbedded in new models are ignored and assumed equal to those of other products in that month. On average, a product's characteristics will undergo major change every two years.

In addition, the commission argues that the CPI should be an index of the cost of living and not just the average cost of a fixed market basket of goods and services. That seems right in concept. A cost of living index would reflect the fact that consumers can avoid some price increases by switching to substitute products. But pushing that idea to the extreme can open a can of worms that exceeds the capacity of the current methodology. Where do we draw the line between economic and noneconomic aspects of the cost of living, and are they separable? How should we value the time required to shop for the lowest price and increases in the range of consumer choices?

Congress is drawn to the issue not out of a fascination with the arcane issues of index number construction, but because the CPI is used to adjust large elements of the federal budget—Social Security benefits and income tax brackets—for annual increases in the cost of living. A revised CPI offers an “immaculate conception” version of deficit reduction in which spending is cut without Congress taking the blame. While the first-year savings from a lower CPI would be small, they build up over time. A 1.1 percentage point reduction in the annual increment

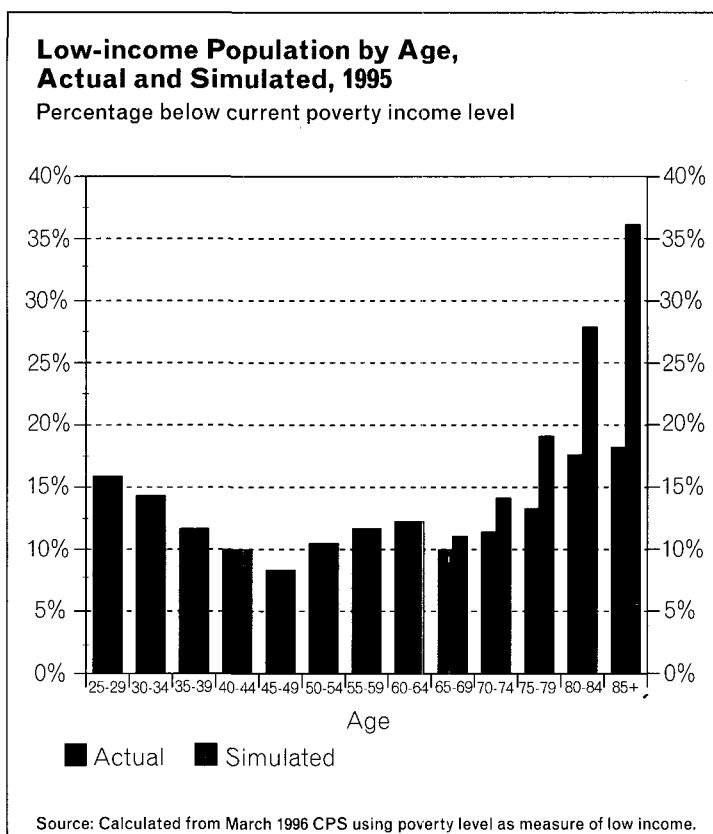
to the CPI would save \$150 billion in the tenth year, or about 1 percent of the GDP. It is becoming evident, however, that procedural changes by the BLS will generate only a fraction of the commission's suggested overestimate of 1.1 percent. Thus, it is suggested that a group of “experts” who are knowledgeable of the actual increase in the nation's average cost of living could provide Congress with a more accurate measure, again providing Congress with some cover for benefit reductions.

Were it not for the politics of immaculate conception, I don't think that Congress would be considering this particular form of benefit reduction. Consider, for example, its impact on the nation's oldest citizens. The typical retiree can expect to receive Social Security benefits for about 20 years. The importance of these benefits rises with age: private pensions have no inflation adjustment and retirees tend to use up their own assets.

The proposed adjustment to the CPI would have no effect on the benefit of a new retiree, but benefits in each succeeding year would rise by a smaller percentage. After 10 years, benefits would be reduced by about 12 percent; after 20 years, by 25 percent. Currently, the average income of those over age 80 is only two-thirds that of people aged 65–69, and the poverty rate rises from 10 percent for families with a head aged 65–69 to 18 percent for those over age 80. The recommendation of the commission would exacerbate that trend. If the recommendation had been in effect for the past two decades, the proportion of those aged 65–69 with income below the current poverty standard would rise only marginally to 11 percent, but for those over

age 80 it would soar above 30 percent.

Congress will have to scale back Social Security benefits in future years, but it should consider carefully the implications of how it makes the cuts. It makes far more sense to concentrate the cuts at the beginning of the retirement period when individuals can mitigate their effect by postponing retirement or working part-time, not when retirees are in their 80s and have no employment options. Nor should Congress cede its responsibility to make critical public policy decisions to a group of putative experts. Unless they are expert shoppers, it is not at all clear what they are supposed to know about annual changes in the cost of living that cannot be incorporated in the procedures of the BLS. ■



CAROL O'CLEIREACAIN

THE ORPHANED CAPITAL

THE NATION'S CAPITAL IS IN FISCAL CRISIS. THE BUDGET DEFICIT FOR THE DISTRICT OF COLUMBIA FOR THE CURRENT FISCAL YEAR IS \$74 MILLION. A PRESIDENTIALLY APPOINTED CONTROL BOARD HAS BEEN CHARGED WITH BALANCING THE DISTRICT'S BUDGET BY 1999.

Revenue Options for the District of Columbia

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Overspending is part of the problem. The District's spending has exceeded its revenues throughout the 1990s. But there is a longer-term problem on the income side of the ledger, as well.

Unlike other American cities, the District is called on to provide all nonfederal services without any state or county to help. To compound its woes, the capital's tax base is severely restricted by federal law. And its hometown industry, government, is tax exempt.

Even after the Control Board brings spending under control and restores accountability to the District government, the city's fiscal problems will continue unless major changes are made in the structure of its revenue.

A Dysfunctional Revenue System

The District of Columbia is neither a state nor a city within a state. The drafters of the Constitution, aiming to ensure the federal government's independence from any state, established the capital as a "district" and gave Congress the authority "to exercise exclusive legislation in all cases whatsoever over such district."

The District's unique status has familiar ramifications. Congress has defined not only the capital's physical appearance, setting its boundaries and even stipulating the height of its buildings, but also the political landscape. District citizens have been allowed to vote for president and vice-president since 1964. They do not, however, have a voting representative in either house of Congress, even though Congress determines the District's budget and its taxes.

The revenue implications of the District's unique status are less familiar. The District is a small open economy that functions like a city. As both the nation's capital and a city without a state, the District has a limited tax base. From that tax base it must provide a range of nonfederal services to its residents, including the state portion of Medicaid and welfare. As a result, it has enacted a large number of taxes which impose a heavy burden on the rest of the District's economy. Increasingly, businesses and residents are fleeing. The District's population has fallen by more than 50,000 residents in the first half of the 1990s alone.

Unlike states, the District lacks the constitutional standing and sovereignty to determine whom and what it taxes. Fully 41 percent of the property in the District, most of it belonging to the federal government, is exempt from property taxes by order of the federal government. On

workdays the labor force of the District doubles, but Congress does not allow the District to tax commuters' earnings—a prohibition that costs about \$1 billion a year in lost revenue. Nor is the District allowed to tax nonresidents' income from the professional partnerships (legal, accounting, management, and political consulting firms) that cluster in the nation's capital.

In the rest of America, states redistribute tax revenues to cities, towns, and counties. State aid accounts for 28–38 percent of general revenues for Boston, Memphis, and Balti-

more, cities similar in population and area to the District. The District receives a unique federal payment of \$660 million, which is enough to cover the lost revenue from exempt property, but not enough to make up for the lack of state aid and the need to provide state-type services as well. For example, at 19 percent of District revenues, the federal payment represents only half the share of help that Maryland provides Baltimore through state aid.

Moreover, the District's tax collection system is broken. After nine directors in 20 years and staff reductions of 20 percent since 1990, the city's revenue department lacks the capacity to enforce and fairly collect the more than 20 different taxes and 115 fees and charges now on the books. External audits point to serious deficiencies in the accuracy of the tax collection numbers and in the accountability for money received. Voluntary tax compliance is languishing, evasion is significant, and business tax revenues derive largely from audits. With neither an internal auditor nor a resident inspector general watching

Other Approaches to Reform

President Clinton has proposed for the federal government to act, in very limited ways, as the state to the capital city, by taking over court, prison, and road repair services, while increasing Medicaid compensation from 50 percent to 70 percent. Further, the federal government is offering to take back the employee pension burden that it handed to the District when it instituted the current system of Home Rule in 1975. The annual \$660 million federal payment would end. The White House proposal is mute on the large amount of federally exempt property, state aid, state-type spending not taken over, and the high tax burden compared with the surrounding jurisdictions. Essentially it offers no net fiscal help to the District.

Eleanor Holmes Norton, the District's nonvoting delegate to the House of Representatives, has chosen to stress the injustice of taxation without representation, by proposing a large cut in federal taxes for District residents. Further, she argues that a 15 percent flat federal income tax in the District would attract residents and businesses that have fled the city. The Norton proposal generates the largest benefits for District citizens with the largest incomes. For middle-income families earning \$40,000–\$75,000 a year, about 17 percent of current District taxpayers, the cut would be about \$2,100–\$2,700 a year. For those earning \$100,000 a year, it would be about \$6,500–\$7,000. As to whether such a tax cut is big enough to affect individuals' decisions on whether to live in the District, there is no empirical evidence. At an estimated current annual cost to the federal government exceeding \$750 million, the Norton plan is a larger increase in federal resources for the District than our proposal without offering any direct budget relief to the District.

over collections or assessments, the possibilities for corruption need to be recognized and corrected.

The Proposal

The DC Revenue Project proposes not only to reform the District's own taxes, but also to create a new formula for federal contributions to the District's revenues. The goal is to change a dysfunctional revenue system into a structure that more closely resembles that of cities of similar size.

First, we propose streamlining District taxes—eliminating some city-type and state-type taxes that have proved problematic to enforce. The resulting revenues, like the District's spending responsibilities, would still be a combination of city-type and state-type taxes. They would, however, be lower, simpler, fairer, and easier to collect than at present. Furthermore, the tax burden would be more closely in line with the state and local taxes in the surrounding area.

Supplementing District taxes would be three distinct federal revenues: a payment-in-lieu-of-taxes (PILOT) to make up for the property that is tax exempt; "state" aid comparable to that received by similar-sized cities; and coverage of a por-

tion of the cost of state-type services, including Medicaid, provided by the District to its residents. At the bottom line, the District's total budget and revenues would be of the same size as that presently approved by Congress (see table).

City-Type Taxes

The real property tax is the main revenue of local governments. The District's tax, however, is needlessly complex to the point of being out of control. It has resulted in a \$2.15 (per \$100 of market value) effective commercial rate on occupied property and \$5.00 on vacant property. Commercial tax liabilities in the District average 40 percent higher than those in the suburbs and can be linked to the District's loss of private jobs.

We propose reducing the current five-class system to two classes—a residential one, with a rate of \$0.90, and a commercial one, taxed at \$1.35. To prevent a creeping increase in the commercial rate, we recommend that a maximum 150 percent ratio between the two rates be set by statute. We would also combine the many existing property tax relief programs into an income-based program that would focus relief on those with low or fixed income for whom property tax payments are a significant burden.

We would also eliminate two city-type taxes on business: the personal property tax and the professional license fee. At the same time, a small broadly based gross receipts tax on all businesses, common to many cities, should be introduced as a new discretionary revenue, providing \$50 million. Such a tax was recommended in 1990 by the Rivlin Commission. The District can model this new general revenue source on the \$10 million fee now dedicated to help finance the downtown sports arena under construction.

State-Type Taxes

Most cities do not levy a business income tax or a personal income tax on unearned and earned income; states do. We would lower and simplify the District's personal income tax and end the two business income taxes.

Even by state standards, District residents pay a large share of their income toward an income tax. Currently the District income tax requires numerous adjustments from the federal form 1040 and is less progressive than the federal tax. The District should follow the lead of two small East Coast states, Rhode Island and Vermont, and piggyback on the federal income tax. The District's new personal income tax could, as an added advantage, be

Proposed Change in District's Revenue Structure

Millions of dollars

	Current	Proposed
City-type taxes, including PILOT	1,653.2	1,179.1
Intergovernmental aid		
Federal aid to cities	229.4	229.4
State aid	0.0	434.2
Fees	188.5	188.5
Total city revenues	2,071.0	2,031.2
State-type taxes	1,370.7	1,016.0
State fees—lottery	85.1	85.1
Total state revenues	1,455.8	1,101.1
Total state and city discretionary revenues	3,526.8	3,132.2
Federal categorical grants	653.0	653.0
Federal sharing for state-type spending		
Medicaid and welfare at 75%	0	220.0
All other state services at 50 %	0	158.0
Other revenues	142.0	142.0
General fund, budgeted revenue	4,321.8	4,305.2
Enterprise funds	848.0	848.0
TOTAL BUDGET	5,169.8	5,153.2

collected by the Internal Revenue Service, headquartered in the Washington area and acknowledged as the best tax agency in the world.

Under the new personal income tax, the District would raise about \$200 million less than it does now. Residents would pay a flat 28 percent of federal liability. The average effective tax rate in the District would fall from 5.2 percent to 4.3 percent, with the largest drop (from 5.4 percent to 3.3 percent) for those with incomes of \$30,000–\$50,000. The effective rate for those with incomes of \$100,000–\$200,000 would fall from 6.7 percent to 5.3 percent. Those with incomes greater than \$200,000 would receive only marginal reductions.

The two business income taxes are both seriously flawed. The corporate franchise tax is exceedingly complex and poorly administered. Revenues, largely audit driven, are erratic and unpredictable. The unincorporated franchise tax is without an equivalent anywhere in the region. Eliminating both would cost at most \$160 million in revenue.

A Comprehensive Federal Revenue Role

The DC Revenue Project proposes a plan involving three components, each addressing a particular part of the revenue shortage that results from the District being the nation's capital.

First, to cover the 41 percent of the property tax base of the nation's capital that is tax exempt and receives local services, we propose that the federal government make a payment in lieu of taxes that fully compensates the District for the cost of the tax exemption. Unlike the present federal payment, the amount should not be negotiable. Its value should be determined by assessments and by the commercial property tax rate. It should be a permanent part of the federal budget. Based on existing assessments and the proposed commercial property tax rate of \$1.35, this PILOT would be \$382 million. About three-quarters of this amount would compensate for federal government property, with the remainder covering federally determined tax-exempt property.

The second proposal involves the aid that states traditionally give localities in the form of general revenue. Massachusetts, for example, in 1995 provided \$429 million in state aid to Boston, a city of roughly the District's size. State aid to localities comes from state taxes and is distributed as compensation for services that localities are expected to provide, as well as to spread revenues among wealthier and poorer areas. We propose that the federal government take on the role of state to the nation's orphaned capital and provide \$434 million, a figure adjusted for the small difference in population between Boston

and the District. That aid would put the District in the same relationship to the federal "state" that many small counties have to their states. They pay taxes; they receive aid.

Finally, lacking a state or an overlying county government, the District of Columbia provides a full range of nonfederal government services. It is useful to distinguish between Medicaid and welfare, which are federally determined programs, and the rest. We propose a payment of \$220 million to reimburse the District partially for Medicaid and welfare. At the moment, the federal government is treating the District of Columbia as if it were a state, not a city. It pays half the District's Medicaid costs, and the District picks up the other half. But in the rest of America (except New York City), the state provides the bulk of Medicaid services. To act as the District's state, the federal government should provide Medicaid services directly to District residents. But because the federal government does not ordinarily provide Medicaid services, the option becomes compensating the District for its own provision. Full compensation would give the District (with none of its own resources at stake) no incentive to provide this service efficiently. A better model is that of New York City, which pays a 25 percent share.

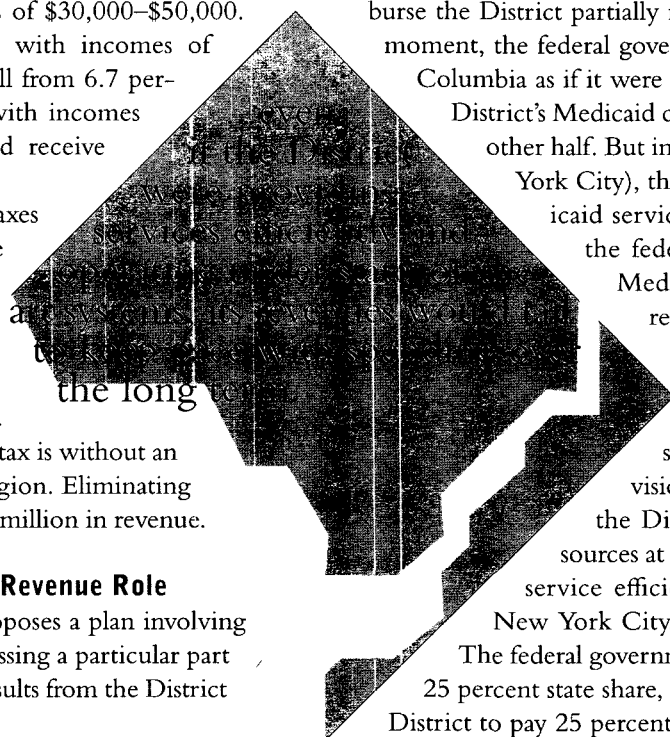
The federal government should pick up an additional 25 percent state share, acting as the state and leaving the District to pay 25 percent and provide the service.

The District also provides other general state-type services, such as courts, prisons, mental health, and higher education. A recent study for the Control Board estimated the annual cost of these services at \$316 million. Here, too, there should be a sharing of costs—a 50–50 split, or \$158 million for the federal government. Another option would be for direct federal provision, depending on what services the federal government may be able to provide efficiently.

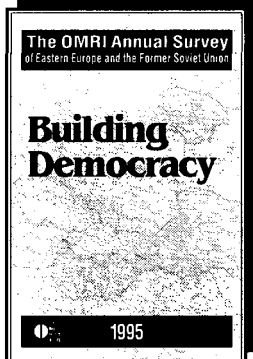
The Only Answer: Revenue Reform

The District of Columbia is, in many ways, in shambles. Its services are deplorable, its accountability almost nonexistent. But even if the District were providing services efficiently and operating under state-of-the-art systems, its revenues would fail to keep pace with spending over the long term.

Under the lead of the Control Board and the District's chief financial officer, tough management decisions are now being made to restore sound government. As District residents, employees, and political leaders struggle to carry out those tough decisions, they need to know that once they have put their house in order, the District's budget will be based on a rational revenue structure. It is the least the nation owes its capital city. ■



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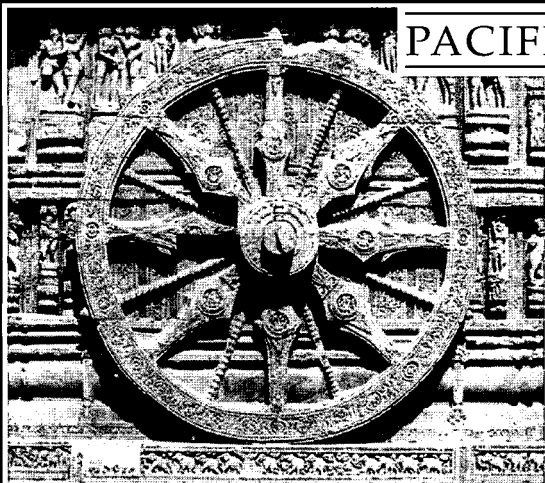
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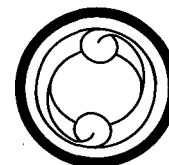
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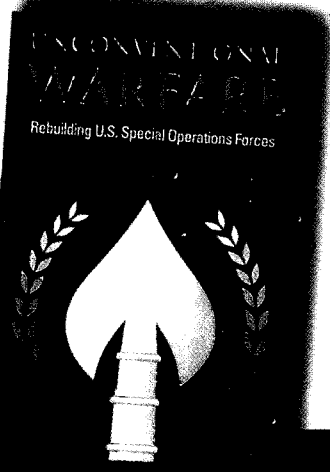
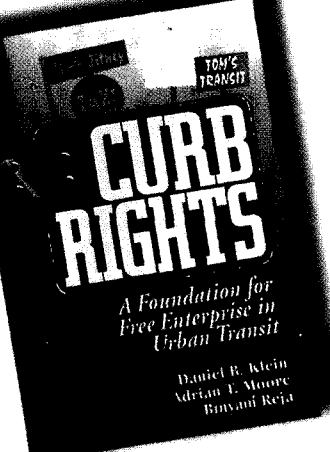
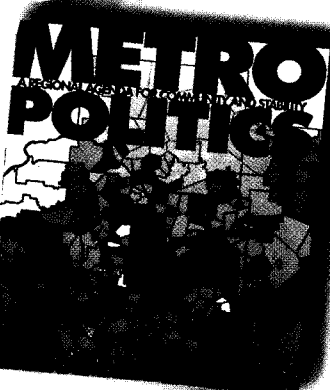
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